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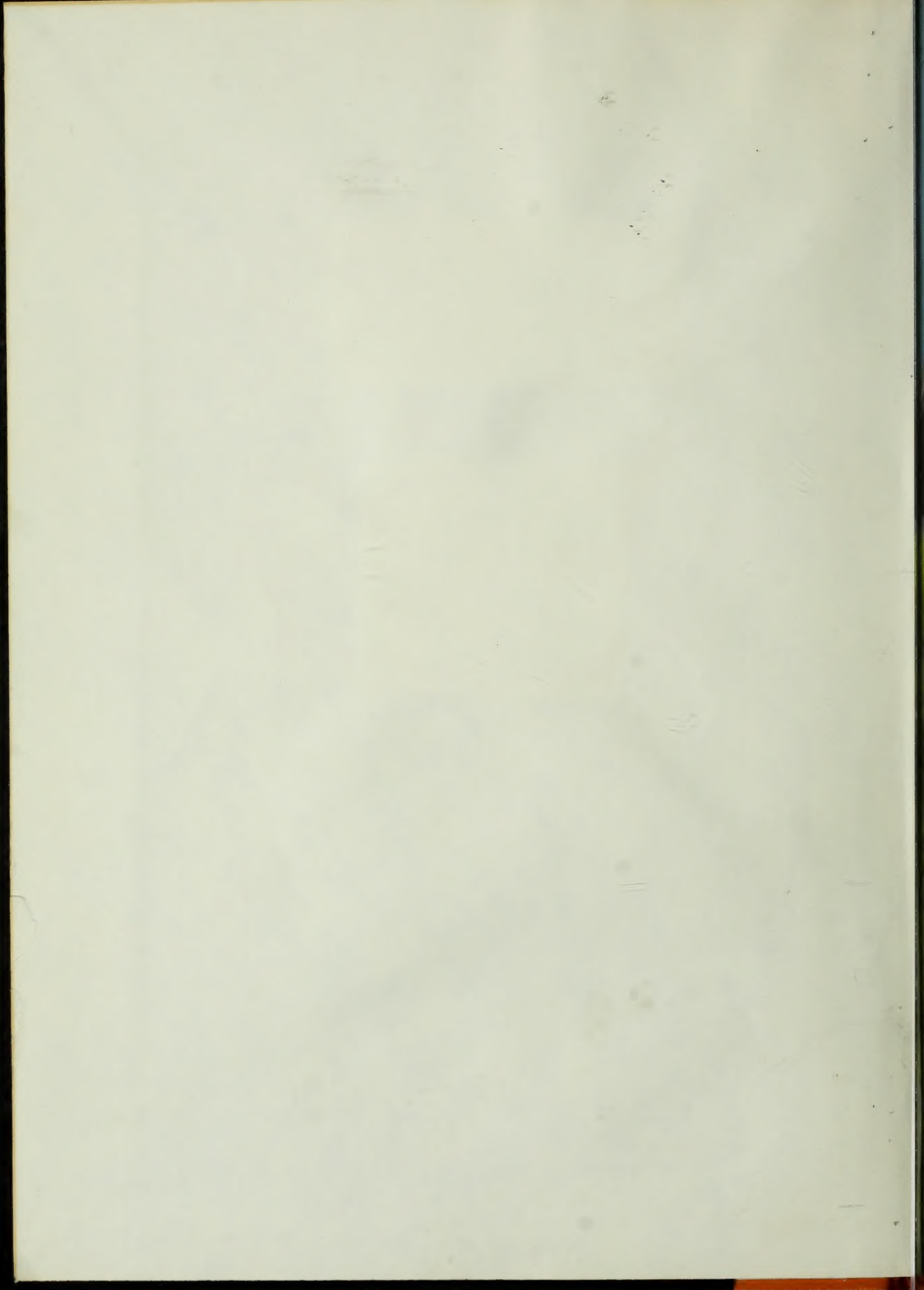
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JULY 1, 1970 / SEVENTY-FIVE CENTS

FORBES

BURLINGAME

JUN 23 1970

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Is Real Estate
on the Brink?

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A waterproof corrugated box?

About as close as you can get to it.

This container stands up after *hours* in the water. It'll *stay* stiff, too. Because every pore has been impregnated by a unique waxing process. A Union Camp exclusive.

The market for these extraordinary boxes? Produce. Poultry. Seafood. Any perishable that

has to be iced and kept fresh and bruise-free over the long haul.

The advantages? The boxes are economical. Easy to inspect. Lightweight. And safe.

Even for pussycats.

Union Camp Corporation, Wayne, New Jersey 07470



Since pollution is everybody's fault everybody is responsible for curbing it

Every man, woman and child in America causes on average a ton of polluting wastes every year. And the car you drive, the truck bringing you food, the plane you fly all add to it.

Are you willing to change to an automobile which uses cleaner gasoline but, as a result, has less than today's power? Are you willing to wear clothes not so glistening white if your laundry should use a weaker detergent? Are you willing to stop the growth of our cities and towns (because after all it's *people* who create pollution).

Hundreds of corporations are spending

millions of dollars to reduce pollution and stop it wherever possible. (Our own Company for one has been changing over a long time to gas furnaces, buying Air Scrubbers, installing Waste Treatment Systems — and there's more to be done.) But we haven't heard of any practical ideas from the student protesters nor the political vote-gatherers, nor, unfortunately, enough action from too many companies.

Pollution and its cure — like so much else — begins at home.

... How are you doing?



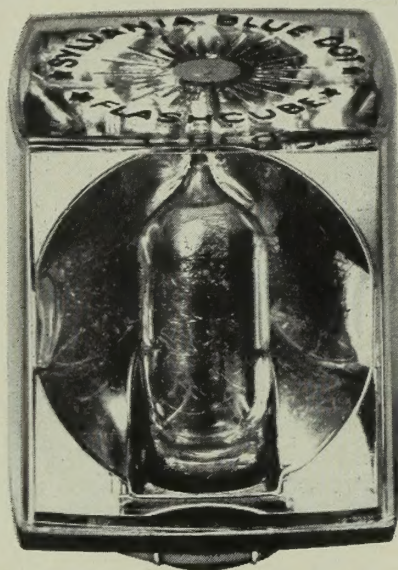
Hydro-Scopic® hydraulic excavator digs new ditches and maintains existing ditches without interrupting traffic flow.



THE WARNER & SWASEY COMPANY
Corporate Offices
11000 Cedar Avenue
Cleveland, Ohio 44106

Sylvania revolutionizes the flashbulb business.

Again.



1965 Sylvania introduces the Flashcube. Giving picture takers four fast-action flash shots without changing bulbs. And giving Sylvania the lion's share of the market.



1970 Sylvania introduces the MAGICUBE—first flashcube to work without batteries. No chance of missing a flash shot because the battery system failed to work.

Back in 1965, Sylvania research came up with a wild success called the flashcube.

One rotating cube that gives you four flash shots.

Now Sylvania re-invents the flashcube.

Now Sylvania introduces MAGICUBE—first flashcube to work without batteries.

You didn't know flashcubes worked on batteries? Many people don't. So many people blame the flashcube when it fails to flash.

But the odds are 50 to 1 the trouble is in the battery system: a dead battery. Or faulty contacts.

As father to the child, this bugged us.

Particularly since millions of flash pictures a year are goofed because the battery system failed.

A Self-Powered Flashcube.

Suppose, though, you developed a flashcube that didn't depend on a battery system? A flashcube that worked on its own built-in power source?

You'd eliminate the major cause for missing all those millions of missed pictures, right? Indeed.

And you might even name it, as we did, MAGICUBE. That's the way it seems to work. Every time.

MAGICUBE is self-powered. It is flashed by a simple, mechanical—not electrical—device inside the camera.

Obviously, if there is no battery system to depend on, there can be no flash pictures to miss because the battery system failed to operate.

The Market Picture.

Sylvania MAGICUBES cannot be used with the conventional flash cameras now on the market.

But Eastman Kodak has already developed an entirely new series of Instamatic® "X" Cameras that will use MAGICUBES. And *only* MAGICUBES.

Similarly, other camera manufacturers are following suit with their own new models.

At the same time we haven't eased up on the production of good old reliable Blue Dot Flashcubes. As of now, they outsell all other brands by a healthy margin.

One flashcube or another, we aim to keep that lead.

Maybe even make it a bit healthier.

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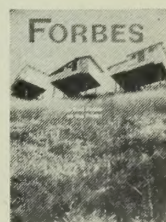
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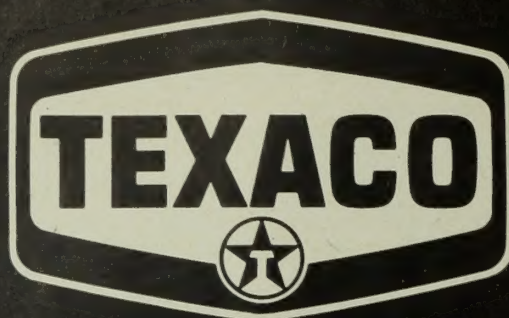
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COVER PHOTO: Marvin E. Newman

FORBES is published twice monthly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.



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On the Move!

We think there are some pretty good reasons to be optimistic about petroleum's outlook at this time:

★ Petroleum demand in the Free World in 1980 is expected to increase by 67% to more than 60,000,000 barrels a day, compared with 36,000,000 in 1969.

★ By 1980, United States demand should increase by 5,000,000 barrels a day—36%—to a total of about 19,000,000, one-third of Free World requirements.

★ Western European demand should increase by almost 10,000,000 barrels a day—91%—to a total of about 21,000,000, or almost

double the level of demand in 1969.

★ Demand in other areas of the Free World should increase by more than 9,000,000 barrels a day to a total of 20,000,000—an 82% increase.

We think forecasts like these mean great opportunity for petroleum industry growth in the '70s. As one of the nation's leading suppliers of petroleum energy, Texaco is ready. We feel we have the manpower, the dedication, and the resources—highly flexible, broadly diversified, and strategically located—to continue the development that has characterized Texaco for 68 years.

In other words, we're on the move.

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Paid Circulation Over 625,000

FOUNDED 1917 BY B. C. FORBES (1880-1954)

FORBES, JULY 1, 1970

Side Lines

Calling a Crash a Crash

ALERT READERS may have noticed that the word "crash" has started appearing in FORBES. Not within the memory of our present staff have we used this term to describe contemporary events. Even in 1962, when stock market values were clipped by \$100 billion or more, we figured that "decline" was strong enough.

Why is this time different? From its high of December 1968 to its low this May, the Dow-Jones industrial average went down 33%, but that's not the whole story. The Dow-Jones transportation index was down 53%. Even the utility index, supposedly stable, has slumped more than 40% since the high it set back in 1965. Standard & Poor's 500, a composite index, is down 35%.

All in all, you have to go all the way back to 1937 to find a bigger decline in the DJI. In 1962, the decline was only 27%. In 1957, 19%. In 1942, 22%.

Of course, 1937's crash was worse than 1970's. In 1937-38 the DJI dropped by nearly 50% (from 194 to 99) in a few months. The granddaddy of them all was the break that started in October 1929 at 381 on the DJI and didn't finally stop until midsummer of 1932 at 41—a decline of something like 89%. (Interestingly, there was one powerful rally in this decline, in 1930, when the DJI jumped nearly 50% in a few months, only to go into utter and total collapse thereafter.)

But if the 1969-70 market is not the roughest on record, it does have some distinguishing characteristics, which, we think, classifies it as a "crash." The important thing, we suspect, is what has been happening in the bond market.

In recent decades the bond market has tended to be strong when the stock market was weak. This was true in 1962. And after 1929, good bonds—not, of course, speculative ones—came out of the Great Depression a good deal higher in price than they went in. For example, in 1929, prime 20-year corporates yielded 4.4% on average; in 1932, 4.7%; in 1939, 2.65%. Yet today the bond market is even more a disaster area than the stock market. Long-term 20-year U.S. treasuries, safest of the safe, have dropped by 24% in market price since 1968. Good corporate bonds sell to yield 9% and more, highest in American history, up from 4.5% five years ago. In short, today we have *two* bear markets, not just one.

In many, many ways, the bond market is more essential for local governments, for corporations and for individuals, than the stock market is. Partly as a result of these tight money markets, some very big companies have slipped close to insolvency. Penn Central, Lockheed, Investors Overseas Service and L-T-V are only a few of the more obvious cases. You would have to go back to the Thirties to find so many big companies in such serious trouble.

Now, we hope no one will read too much into our choice of words. In calling the crash a crash, we're not predicting that things are going to stay bad or get worse. We'd be the last to sell short the strength of our society and of our economy. This time, too, the stock market will come back. But it would be foolish to underestimate the damage that has been done and how long it will take to undo it. A crash is a crash is a crash. ■



Trends & Tangents

FOREIGN

International Interest

The current concern over interest rates is not confined to the U.S. In fact, interest rates here are relatively stable compared with those in eight European countries, Japan and Canada over the past ten years. Germany and Great Britain have the most volatile rates; in the past ten years, the Bank of England changed its discount rate no fewer than 24 times. Switzerland continues to have the lowest interest rates among the 11 countries, reflecting both the stability of the Swiss franc and the value of political neutrality. Japan, which ten years ago had the highest rates, today has among the lowest, and is the only country whose interest rates are lower than they were a decade ago.

BUSINESS

For Sale: Almost Anything

While New York's Parke-Bernet Galleries has long been extending its activities beyond its more traditional field of paintings and *objets d'art*, this month it will break new ground by auctioning off used computers. Customers looking for EDP bargains will now join museums and collectors on the auction floor. The move is in line with P-B's policy to extend its auctions, which in the last two years have been broadened to include historic aircraft, antique cars, trains, horses, old buttons and bank shares. Last December it sold at auction 24,034 shares owned by stockholders unwilling to go along with a merger between two New Jersey banks.

Running Funds

Campaign expenses present a classic example of a credibility gap, according to a recent study of political financing. The Twentieth Century Fund estimates that close to \$50 million, rather than the \$8.5 million reported, was spent in Congressional campaigns in 1968. Their recommendation: require disclosure, and publicly subsidize campaign expenses by altering the tax structure. This proposal permits a

partial tax credit for individual political contributions, and allows broadcasters a full tax deduction of discounts given candidates.

Getting the Lead Out

Smallish Murphy Oil Co. (1969 revenues: \$246 million) of Arkansas has made the decision many of the larger oil companies have been groaning over: to sell a lead-free gas. The new fuel, dubbed "anti-pollution gas," will cost the same as its competitors' leaded variety. Rising antipollution sentiment plus the current proposal to tax leaded gasoline has made such a move appealing to many. Among them: investors. Murphy's stock jumped almost four points, over 20%, the day after it announced its plans.

Tom Watson, Take Note

International Business Machine's lawyers defending the company against charges of monopolizing the computer industry might take heart from the fact that IBM isn't the only company that dominates over two-thirds of its industry's sales. So does Guilford, Maine's 65-employee Pride Mfg. Co. Last Year Pride's production run of 250 million items filled 75% of his market's need. The product? Golf tees. ■

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READERS SAY

Indochina—Pro and Con

SIR: Your little "Nixon Can Recover" bit (*Fact & Comment*, June 1) was a great comfort to Communism. You are either red, yellow, or ignorant. You appear to be some of each and if any more of this trash comes from you, please do me the courtesy of cancelling my subscription.

—ROYCE S. ROWLEY
Huntington Park, Calif.

SIR: In my admiration for your remarks in the Nixon editorial, I took the liberty of writing to the editors of local newspapers quoting your remarks.

—JOSEPH A. SUTTON
New York, N.Y.

SIR: You must be of the long-haired type, unwashed, a low mind, and expediency for a policy of living ... so shallow you could not teach a group of kindergarten children.

—LYLE V. TIMMINS
Blanchard, La.

SIR: Beautiful!

—HARRY B. BROWN
South Bend, Ind.

SIR: We are going to leave and when we do the Asians will settle their own problems whether we leave in 1971 or 1981! If some of Nixon's advisers can't change his course the Republican party is going to pay a bitter price in 1972.

—NORMAN F. SMITH
Shaker Heights, Ohio

Requirement—Made in USA

SIR: I believe you will find that Smith and Romeo—aided by Popp (*Side Lines*, May 15)—missed the best-managed company on the American scene in your Directory Issue, International Utilities Corp., our parent organization.

—HAROLD E. WHATLEY
President,
Amvit
Cleveland, Ohio

The criteria for inclusion in the Directory Issue are that a company must be publicly owned and it must be U.S. based—ED.

Finding a Niche for the Penn Central

SIR: Your remark that "Penn ... is now probably worth more as a real estate company than as a transportation company" (*FORBES*, May 15, p. 65), is one that I am more than ready to believe, although I would take the word "worth" in a different sense from the one that you probably intended. I always thought that Penn Central didn't know how to run a railroad; even a recent ride on the puffed-up Metroliner didn't modify that opinion. Maybe if Penn Central got out of the transportation business altogether, and tried to find out where its talents

really lie, it would clear the tracks for some overdue improvements in rail service.

—C. WASIUTYNSKI
New York, N.Y.

A Matter of Disagreement

SIR: In your issue of Feb. 15 (*Readers Say*), Henry G. Bleeker of the Ford Motor Co. claims that Ford is the second largest producer of diesel engines in the world, having built slightly in excess of 153,700 in 1969.

To set the record straight: The Daimler-Benz AG, in 1969, produced 214,815 diesel engines in its German plants. In addition, approximately 1,100 Maybach Mercedes-Benz diesels were built. These numbers do not include diesel-engine production in our plants outside Germany.

—ALFRED H. CARROLL
Vice President & General Manager,
Daimler-Benz of North America
Flushing, N.Y.

One Count Will Do

SIR: On page 64 of your May 15 issue, you say: "The 500 biggest (by revenues) companies last year added up to some \$550 billion, more than half the gross national product." In a way, that is true: The combined sales are *equivalent* to more than half the GNP. What is misleading is the implication that in the computation of GNP, more than half of the total comes from the 500. The error is that the GNP removes double-counting. When Dow sells a chemical to GM and GM puts it in a car and sells the car, the FORBES 500 counts both sales. The GNP counts it once, in effect adding up only the "value-added" by each company in the manufacturing chain.

—THOMAS GILGUT
New York, N.Y.

Howard Head Replies

SIR: Touché on Head's PR department! [*Fact & Comment*, May 1, which commented upon the explanation of Head Ski's PR man for Howard Head's selling his Head Ski stock.] Regards.

—"Ski's (retired) Head"
HOWARD HEAD
Timonium, Md.

A Friend of Snoopy's?

SIR: The cover of your June 1 issue strikes a nostalgic note. As a contemporary of the likes of Billy Bishop, Baron Manfred von Richtofen [the Red Baron], Arthur Ball *et al* in World War I, I flew an assorted number of aircraft and, as a bomber pilot, took flight training with Art Brown. (Sir Arthur Whitten Brown, who was first—with Captain John Alcock of the Royal Air Force—to fly nonstop across the Atlantic in 1919 and won the *London Daily Mail's* \$50,000 prize for same.)

No reference is made of this very interesting cover photograph, but I am taking an educated guess that this is a

(Continued on page 60)

Seagram's Benchmark. Measure your Bourbon against it.

The meaning of the word Benchmark:
"that which others are measured against."

Take us up on our challenge—and
measure your Bourbon against Benchmark.

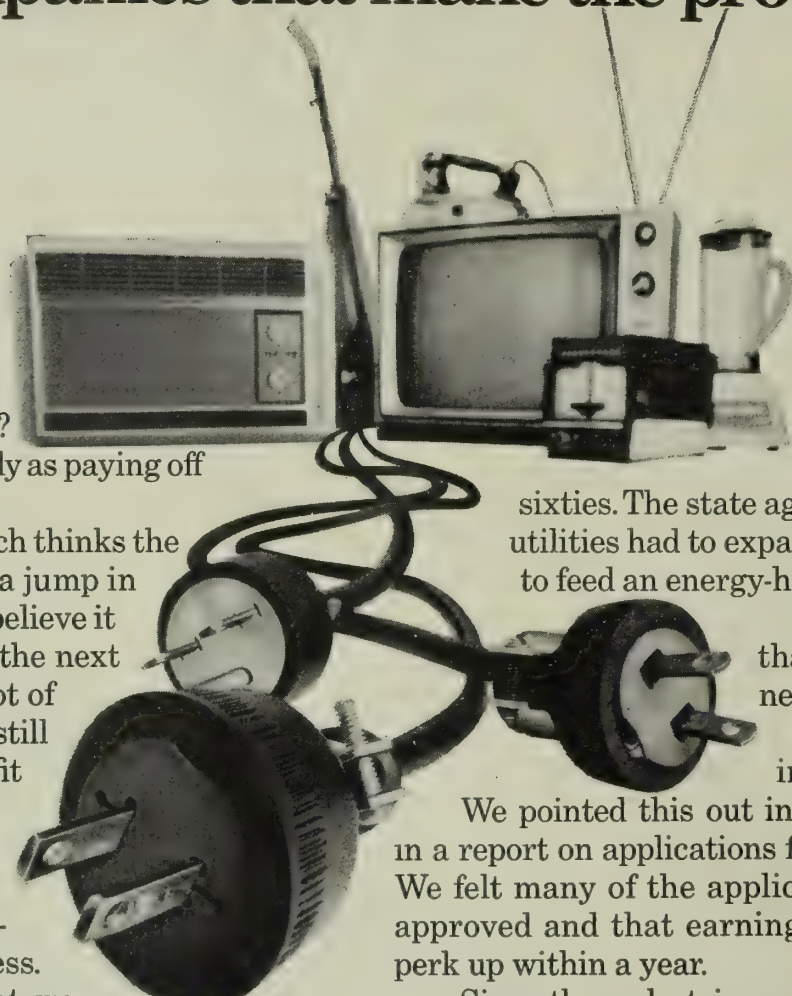
We think you'll find that all the
craftsmanship and skill and old-fashioned
care that go into it do make a difference.

A measurable one.



Seagram's Benchmark Kentucky Straight Bourbon Whiskey. 86 Proof. Joseph E. Seagram & Sons, Louisville, Ky.

The companies that make the juice may start to earn more than the companies that make the products.



Utilities? For aggressive investors?

It sounds as likely as paying off the national debt.

But Merrill Lynch thinks the stage may be set for a jump in utility earnings. We believe it should come during the next 18 months, when a lot of manufacturers may still be caught in the profit squeeze.

So you might see utilities earning more while manufacturers are earning less. Assuming we're right, we think the difference could be startling.

One thing that's helping utilities is the soaring demand for electric power. People keep finding new ways to use it. For everything from house heating to portable pants pressers. We estimate that demand will double in less than 10 years.

Another trend—and one that could also have a big impact on earnings—is the growing willingness of state agencies to grant responsible rate increases.

Our analysts saw this trend developing in the late

sixties. The state agencies knew that utilities had to expand their facilities to feed an energy-hungry nation.

They also knew that utilities would need good earnings to attract new investors.

We pointed this out in December, 1968, in a report on applications for rate increases. We felt many of the applications would be approved and that earnings could start to perk up within a year.

Since then, electric power utilities have gained well over \$400 million in rate increases. And earnings are starting to rise among many of the 250 utilities we follow. Your Merrill Lynch Account Executive can tell you which ones our analysts like for the intermediate and long term.

We're not saying we spot all the new trends. Nobody does. But we do have twice as many analysts looking for them as any other broker.

We figure that puts the odds in our favor.

Merrill Lynch: We look for the trends.

Merrill Lynch, Pierce, Fenner & Smith Inc. For nearest office call toll-free 800-243-6000. In Connecticut call 800-942-0655.

Fact and Comment

DREAMERS' DREAMY DREAM

The other day a few of us here were powwowing with some of the topmost brass of one of the country's most prestigious banks.

In a discussion about the mandatory retirement policies of most corporations, one of these guests observed that it would be equally valuable or far more so if there were a mandatory retirement age for senators and congressmen. Every reason for the existence of age ceilings in the corporate world or the military world or for that matter

any other world applies to federal legislators—in spades.

We were all in agreement on the idea but figured that keeping snowballs from thawing in Hades might be a far simpler undertaking than getting Congress to support such a provision.

For some quite fathomable reason (spelled P-a-t-m-a-n), these very responsible bank executives didn't insist that I give them public credit for their highly creditable suggestion.

IT CAN'T HAPPEN HERE—?

For many years the world and we have tutted and clucked our disapproval of the British workers' willingness to engage in wildcat strikes for any or no reason at all. The cost of this rampant and irresponsible waste to Britain and its standard of living has been enormous.

There are indications the virus there is subsiding. Recently a majority of 48,000 Ford Motor Co. Ltd. workers rejected a strike call by their leaders at 20 of British Ford's 21 plants. They voted to accept a settlement that their stewards had rejected.

Here it's been quite the reverse—to the point where management finds negotiating with unions incredibly difficult. Settlements are arrived at, often at considerable sacrifice, only to have the union leaders' agreements rejected by the rank and file. Then the rejected "settlement" becomes the basis on which further new demands are made toward a new "settlement."

I hope it doesn't take American rank and filers as many years as it did the British workers to control such costly-to-all irresponsibility.

DO THE RABID RISE?

Are there more haters than ever in the country?

Without doubt, our land is plagued by an increasing number of people bitter—over Vietnam; over Cambodia; over campus turmoil; over inflation; over black and white extremists; over this and that and over more and more.

Venom is vented by voices from podiums and by the Fringes who set pen to paper and splatter the press and the objects of their wrath with purple prose.

Not long ago, Jeno Paulucci, the many-succesed entrepreneur from Minnesota, placed a paid message in some newspapers urging the President to leave Indochina. He wrote me about one aspect of the response:

"Frankly, I never realized that here in America we have such rabid vitriolic people who write threatening as well

as vulgar and insulting letters when an opinion differs from theirs. It's been a disgusting and most disturbing revelation. . . ."

Here at FORBES we get our share, as you can see from some of the letters on page 8 of this issue.

I guess it really shouldn't be too disturbing that vehemence flourishes in a time of so many deeply divisive Questions for which there are no simple answers. It's probably healthier for us all, and certainly for the haters, to vent their feelings—to let it out, to let it all out. If it makes those sick-minded extremists healthier, I guess the much-talked-about, much-claimed, much-spoken-for Silent Majority can put up with all the screamers with a bit more of the same silence.

A BRIEF PAUSE FOR NOSTALGIA

Three weeks ago my wife and I and sons and daughter and daughter-in-law-to-be did as millions of other Americans did in early June—witnessed an offspring's graduation.

Our eldest, Malcolm Stevenson Forbes Jr., was being awarded a Princeton BA—as had his father before him, his grandfather before him, numerous uncles and numerous cousins. Just 29 years earlier I sat about where he was now sitting on the lawn in front of Nassau Hall, and my parents sat off to the side where his were now sitting. Our times too were tumultuous—in 1941 World War II was in full swing and Pearl Harbor lay just six months ahead.

This year's graduating class speakers were perceptively tuned in to the tumult of these times. The courageous clarity with which they spoke spoke well of them and their university. Their valedictorian pointed out a strange and bad thing: "Today the American flag and the Peace symbol are used to rally diametrically opposed forces."

University President Coheen, who has guided Old Nassau with dedicated brilliance for 13 years, concluded with this observation to the newly launched: "You have my confidence and, now that you are no longer students, may I say 'More Power to You.'"

COOL!

Princeton University's award of an honorary degree to Bob Dylan.

THE TEACHERS GET TAUGHT

While professors may not have been able to do much teaching-preaching to undergraduates in the past months, the teachees have sure been teaching the teachers.

Most in that honorable profession have always held, espoused and sought to awaken or instill liberal views—if you'll pardon the use of this unfashionable word. You know the line: Be Aware and Beware of the Establishment! Learn to Recognize and Upend the Power Structure! The Flaws and Fallacies of Capital-

ism! Be Alive to Wrong and March Forward to Right It!

How sad now (hmm)!

The marched-against, much-besieged professors are mostly aghast at some of the results they sought and wrought. Instead of picking targets, they are startled and appalled to be targets. Radical campus undergraduates have deradicalized faculties by the collegeful. Whether this taking of the yeast out of the yeast is good doesn't change the fact of it.

HOW MANY PROFIT PLANS HAVE YOU?

All business managements sometime in advance of each new year draw plans, project budgets and profits for the year to come.

In FORBES' last issue, E. Mandell de Windt, new Eaton Yale & Towne CEO, has a better plan, *i.e.*, three plans: one for anticipated sales, another for sales running ahead of plans, and a third should sales fall below projections. Said the article:

When sales start to slip in any corporation, the difficulties rapidly multiply. Doubts and fears arise. Executives become defensive with their superiors. They spend days anguishing over how to cut costs when what they need most is to figure out how to lift sales.

Planning in advance for a slowdown eases the pressure. "It forces divisional management and corporate staff to develop a plan of action before a downturn. We try to avoid a lot of the fuss and emotional decisions when the time comes to cut back."

Often executives become so narrowly committed to one course that they can't switch to another. De Windt's multiple-budget system forces his executives to keep two of their most important functions in mind. One is how to handle an unanticipated bulge in demand. The other is how to handle a decline.

It's a case, you might say, of Thinking Positively by doing some negative planning.

RUDENESS PAR EXCELLENCE

If you dislike a man and want him to dislike you, here's a surefire way to get the job done—

On being introduced in a small gathering or large, in the course of the minutes of unavoidable conversation, be sure to avoid looking at him. While he attempts con-

versation with you, or you mumble at him, look over his shoulder and around the room at others. When not looking past him, keep glancing at your wristwatch.

A very brief while of this and—presto!—your mission is accomplished.

—MALCOLM S. FORBES,
Editor-in-Chief



The Greatest Thing Since the Nickelodeon?

If you scorn what's on the boob tube but prefer your entertainment at home, don't despair. Cartridge video is on the way.

THERE'S a whole new consumer goods industry about to be born that could be worth billions of dollars a year to the electronics, entertainment and information industries. There's only one problem: The potential is so obvious that there's a stampede to get in, and it may be years before anybody makes any real money.

Involved is a kind of oversized briefcase hooked by a few wires to the antenna terminals of an ordinary color television set. It's a home video player, which could be to TV what the long-playing record was to the phonograph—and more. RCA Chairman Robert Sarnoff considers the home video player “the biggest development in home entertainment since the advent of color TV.”

TV has always had a tremendous advantage over other forms of entertainment: The customer doesn't have to go to it, it comes to him. But TV has a big disadvantage, too. The disadvantage has been that the viewers have been pretty much limited in what they can watch by what the big networks produce. Given the economics of the situation, the networks tend to appeal to a rather low com-

mon denominator of entertainment.

The home video player, retaining the big advantage of TV, offers a way out of this basic limitation. It could give the average American, right in his own living room or playroom, an almost limitless choice of entertainment and information. The viewer simply drops a prerecorded film cartridge or cassette on a spindle or into a slot, presses a button and runs off a color or black-and-white show for up to an hour and a half. In effect, it enables every one of the 83 million TV sets in the U.S. to become a sound projector in its own private theater.

In this it differs radically from the video-tape camera-player combinations on the market since the mid-Sixties, which permitted a purchaser to record a show and play it back later. The owner of a home video player can select from his own library of purchased or rented prerecorded shows.

Big Bandwagon

Any new product with such profound implications cannot help having far-reaching business implications. The home video player already has begun to create an expanding group

of entrepreneurs, old and new, ready to supply prerecorded programming fare of every kind: Off-Broadway shows; encyclopedias; golf lessons; old and new movies.

There's almost a stampede to get a foothold in the business. Companies ranging from Time Inc., The New York Times and Field Enterprises, offering educational materials, to Hollywood operators like Darryl Zanuck of 20th Century-Fox and United Artists, who plan to transfer big chunks of their old feature film libraries to the new home video cartridge systems. The advertising agencies are talking about what could be done to make direct-mail sales pitches and product demonstration cartridges for easy home use. The owners and operators of CATV systems have caught the vision of what a prerecorded cartridge library could do to reduce their dependence on TV networks and stations for programming.

Optimists already are forecasting a new market from \$1 billion to \$5 billion within the next ten years for home video players and the programming software that goes with them. With the big growth in existing home entertainment products already past its peak, this market is one that nobody can ignore.

The products already exist. Granted, it is still a very high-priced product for the mass consumer market. Current models of cartridge or cassette type players are already for sale at \$795 and could be priced higher initially. At this point, the most likely customer would be a corporation or a school using such players to cut training or teaching costs. The same goes for the current prices of cartridges.

To create a true mass market, their prices will have to drop, probably to around \$300 for a player, \$5 or so for a feature film cartridge. At these prices, home video would be price competition with long-playing records.

Everybody In

Until last fall, Columbia Broadcasting System was about the only big outfit around that had actually demonstrated a practical player, its Electronic Video Recorder, or EVR. Since then RCA has jumped in. So has a Japanese contingent led by Sony Corp. and including Matsushita.

Then, in May, Avco Corp. announced that it had set up a subsidiary, Cartridge Television. Avco's Cartrivision will be a combination player-recorder and TV set to be made by Admiral, Sylvania, Magnavox and Zenith also say they are working on home video players, though they are quite closemouthed about it. A small British firm, Vidicord, also has devel-



The Jazz Singer, the first talkie, started a revolution in movies; cartridge video may be able to do the same thing for television.

oped a playback unit so that the home viewer could run plain black-and-white Super 8 movie film, all prerecorded by some movie company, on his home TV set.

Obviously, the competition is going to be fierce. Especially so, since there is unlikely to be a single winning system; unlike in color TV, where the Federal Communications Commission picked the winner. But the FCC does not have jurisdiction over home video players because they do not use public airwaves. Thus each company is free to push its own system, with only the public to decide who wins or loses.

At the moment, CBS has the lead. It is ahead in technology, and in that it already markets a system. But CBS hardly has an overwhelming lead. Its competitors are coming up fast.

CBS is ahead because of its resident genius, president and director of research of CBS Laboratories Division, Peter C. Goldmark. Dr. Goldmark's great idea was to take any kind of program material—from video tape to movie film—and feed it into an electron beam recorder. This creates an Electronic Video Recording master used for high-speed printing of a very narrow (8.75 mm.) piece of film. According to CBS, its seven-inch-diameter EVR cartridge gets 25% more visual information in less space than on conventional video tape now used to record most TV.

Just as important, an EVR cartridge costs about one-sixth as much as video-tape. EVR costs less because video tape must be reproduced at the same speed at which it is to be played, while EVR can be reproduced up to 20 times as fast. The EVR film technique yields a cartridge with up to 50

minutes of black-and-white programming, including a stereo sound track, or 25 minutes of color pictures, on the same sprocketless film. It also can be run forward or backward at varying speeds by fingertip controls on the EVR player.

Sharing the Market

CBS has patents on all the unique phases of its EVR process and player system. But CBS is not taking a dog-in-the-manger stance. It has licensed others to make and sell its EVR player, an industrial model now priced at \$795; it builds none itself. In the U.S. Motorola (see p. 39) has an exclusive franchise to make the player through next year; CBS is paid an estimated 5% royalty on every player sold. Motorola President Elmer Wavering says he is tooling up to turn out 100,000 sets the first year, though the trade says he will be lucky to get 10,000 to 20,000 off the production line. Meantime, CBS has set up similar licensing deals overseas with companies in Switzerland, Germany, Italy, Austria, France and the United Kingdom.

Robert E. Brockway, president of CBS' EVR division, also plans eventually to license more U.S. TV set manufacturers; according to trade sources one of these might be Sylvania. Brockway's first interest is the 31 million U.S. homes that already have color TV. After that, Brockway says the next step will be to install the EVR player in the next generation of color TV sets made by others. "This would help cut player costs down even more," says Brockway.

Why is CBS not manufacturing its own sets? Partly because it still bears scars from the corporate disaster it

suffered trying to get into TV manufacturing in the Fifties. But it also seems that CBS is more interested this time in the software than in the hardware. CBS already has two cartridge plants—in Rockleigh, N.J. and in Basildon, England—scheduled to start pilot runs this summer. The hurry is for the enormous profit potential in film-making and processing, with the high-speed EVR recording technique using film made by England's Ilford Ltd. One Wall Street analyst estimates this could run as much as 40% pretax. A minimum run of 50 25-minute black-and-white cartridges cost \$24.30 each; 2,000 of the same cartridges now cost \$12.30 apiece. In color, 50 25-minute cartridges go for \$36.50; 2,000 would cost \$18.50.

EVR would also fit right in with CBS' new ventures in movie-making, book publishing and education, thereby moving further out from under the control of the Federal Communications Commission. CBS President Frank Stanton said years ago that the company's ultimate goal was to move with products like EVR cartridges that could be sold the way LP albums are marketed by the Columbia Record Club, one of CBS' most profitable operations.

In the past year and a half Brockway's CBS marketing team has taken orders for EVR players and cartridges from some 50 different institutions in government, education and business. They made their film commitment with Darryl Zanuck and even the Hal Roach Library. By early fall, CBS and Motorola are to deliver 1,200 EVR players to the Equitable Life Assurance Society, and they now have New England Life converting 300 video-tape programs to EVR.

For all of this, CBS executives are looking nervously over their shoulders. With good reason. Twice before, in color TV and long-playing records, CBS got to market ahead of RCA only to lose the lead. RCA Chairman Bob Sarnoff is determined to make history repeat in home video systems.

RCA has already demonstrated a system it considers will be far superior to CBS'. On the TV screen, the two systems eventually could produce roughly equivalent images and sound. But they produce them by radically different means. The big advantage of RCA's system is that it uses much cheaper materials, ordinary plastic tape like that used to wrap meat in supermarkets; it reads off holographic images on the plastic by means of a laser beam.

The drawback to RCA's system is that it is still full of bugs. RCA, however, says it is not afraid of CBS getting to market first. RCA is primarily

Television

interested in the mass home market, and it feels that its cheaper system, not CBS', is the ultimate answer for home video players. As against the \$795 that CBS players cost, RCA thinks it can produce sets for \$400 and cartridges for about the current cost of an LP record. Target date: 1972.

There is no question that RCA's announcement, despite its production troubles, shook CBS up. Shortly after the CBS demonstration, Brockway, too, announced that CBS was hard at work trying to make a \$400 EVR player by 1972. CBS' Peter Goldmark followed this up a few months later with the announcement that CBS was even considering a switch to diazo-type film that has no silver content. This could significantly cut the production costs of CBS' present EVR cartridges.

But the big struggle for the home video player market is not just simply a new round in the long rivalry between CBS and RCA. In fact, neither RCA nor CBS may emerge a clear winner. Only eight months ago Japan's formidable Sony Corp. put itself into the race with its own cassette-type video cartridge system. Using a new type of video tape, Sony's system, too, feeds signals through antenna terminals into any TV set. Shigemi Nakano, vice president of the Sony Corp. of America, says Sony has plans that could make such a system available in Japan next year, at about \$350 a player, to get production roll-

ing and cut costs. This means that by 1971 it could also invade the U.S. with a home unit priced at about \$400 with cartridges in the \$10 range. Competitors and critics charge that Sony is just making big claims to stop the CBS bandwagon.

Nevertheless, Sony has made some plans with Toho, the biggest movie-maker in Japan, to turn out feature films for Sony cassettes (which also are designed to carry several sound tracks in two languages). When Sony hits the States next year, it will offer a trade-in plan where a customer can buy a raw cartridge from a retail outlet, send it out for recording, or swap it for another recorded cartridge as part of a Sony cartridge club. Meantime, Sony is taking no chances. It already has gotten seven other firms in West Germany, Italy, Japan and the Netherlands to agree to establish a standard cassette in their home video player systems.

What emerges from all this is the virtual certainty that home video players are going to be very big business but that no one company is going to be able to dominate it. It may well be that the big winners will be no single company or group of companies but the long-suffering viewer. For the first time, TV, a great technological achievement, may be lifted above the level of "The Beverly Hillbillies." It may reach the point where—to borrow from McLuhan—the Message may be worthy of the Medium. ■

(13) ● **BOOK BEAT:** Robert Cromie interviews Samuel Edwards, author of "The Devine Mistress" (C)

(31) Film

(41) Mauricio Garces (C)

(47) Pofito Vega (C)

0 (2) **Hogan's Heroes:** Bob Crane, Werner Klemperer, John Banner and others (C) (R)

(4) **The Name of the Game:** "Laurie Marie," Tony Franciosa, Susan Saint James, with Mark Richman, guest star (C) (R)

(5) **David Frost Show:** Dr. David Rubin is host to Tiny Tim, Dr. Margaret Mead, Debbie Shelton, Claudia Jennings (C)

(7) **The Ghost and Mrs. Muir:** "Host to the Ghost," comedy and fantasy Hope Lange, Edward Mulhare Reta Shaw, Charles Nelson Reilly (C) (R)

(11) ● **BASEBALL:** New York Yankee at Kansas City (C)

(13) ● **N. E. T. PLAYHOUSE:** "Ceremony of Innocence," Ronald Rittman's drama of 11th century kin whose efforts to avoid war with the Danes brings tragedy to his court. Richard Kiley, James Broderick, Larry Gates, Jessie Royce Landis, Elizabeth Hubbard, Gilman McCormick (C) (to 10)

(47) **Simplemente Maria**

1:00 (2) **Movie:** "The Alphabet Murder" (1966). Tony Randall, Anitaenberg, Robert Morley. Overstuffed overstuffed side-swipe at Agatha Christie whodunit (R)

(7) **Here Come the Brides:** "La Grant," comedy, adventure, Robert Brown, Bobby Sherman, Jo Blondell (C) (R)

(21) **Long Island News Report**

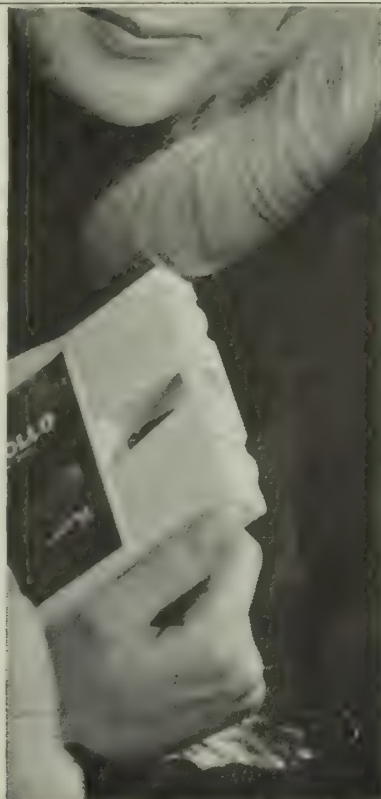
(31) **Sight and Sound**

(41) **Agueda**

3:15(21) ● **DRUGS: LONG ISLAND:** Heing, Nassau County Drug Abuse and Addiction Commission

9:30(31) **News:** Jerry Miller (C)

Choose, Don't Settle. Conventional TV schedules certainly won't disappear, but viewers will get a whole new range of choices. Lending libraries, mail-order clubs, record and appliance stores, even drug outlets and supermarkets are potential sales outlets for cartridge video. So are community antenna systems.



Whoever wins the hardware battle—Sony, RCA or CBS—the big money will be in software, the millions of cartridges or programming sold like razor blades and rolls of amateur film to industry, schools and the home.



A

Low-Risk

Risk?

UNABLE to sell debt at decent interest rates, many corporations turned to convertibles during the late bull market; the speculative appeal of convertibility persuaded investors to accept 4.5% interest on bonds that would have cost the issuer 6% or 7% as straight debt. And then came the crash. Today many of the common stocks have fallen so far that the conversion privilege has little or no value; the convertible bonds now sell as straight debt—and at considerably lower prices as well. For example, the Howmet 4½s of 1992 recently sold at 58.3% of face value, down from 96% of their face value in January 1969. What was supposed to have been a sound investment turned out to be as risky as any hot stock. And convertibles that were bought on margin brought the added pain of reverse leverage.

But while the original investors have been clobbered, new investors may, in fact, have an interesting opportunity. Many of these convertibles now sell at prices where they yield 10% or more. In these cases, the conversion privilege doesn't seem to be worth much; it may be at a price two, three or even four times the going market price of the common. But still, conversion *could* turn out to have value again—and at these prices the investor has a high rate of return and less risk than with a common stock investment. The investor gets the conversion privilege almost for nothing. He also stands to make good money if interest rates were to go up.

An interesting prospect, but one with a lot of big "ifs." Perhaps the economy will recover quickly and interest rates will fall. But if they do not, there is the growing risk that some of these companies might be unable to continue meeting their interest payments, especially in view of the senior debt many of them have outstanding. All but four of the 59 issues listed here have a Standard & Poor's "substandard" rating—that is, below BBB. Several of the companies—Lockheed, Levin-Townsend, L-T-V, for example—are already in trouble.

In short, an opportunity, but not for the faint of heart. ■

Convertible Bonds

Bond	Standard & Poor's Rating	Recent Bond Price	Current Yield (approx)	Yield To Maturity (approx)	Recent Common Price	Recent Conversion Price*
AMK Corp. 5½s 94	B	54	10.2%	11.0%	15¾	29¾
A-T-O Inc 4¾s 87	B	40	10.9	14.0	8½	23¾
Allied Supermarket 5¾s 87	BB	57	10.1	11.5	5¼	11
Am Export Ind 5¼s 73	BB	43	12.2	13.0	9¾	24½
Am Snacks 6s 89	B	38½	15.6	17.0	2¼	10¾
Arlans Dept Stores 6s 94	BB	65	9.2	9.8	9¾	17¾
Avco Corp 5½s 93	B	56½	9.7	10.5	14¾	30½
Beech Aircraft 4¾s 93	BBB	51	9.3	10.2	9¾	23¾
Belco Petroleum 4¾s 88	BB	52	9.1	10.8	13¼	29¾
Bobbie Brooks 5¼s 81	BB	66½	7.9	10.5	9¾	24¼
Brunswick 4½s 81	B	65½	6.9	9.5	13¾	33¾
Chock Full o'nuts 4½s 81	BB	62½	7.2	10.2	8	17¾
Computer App 5¾s 88	CC	23	25.5	26.2	3¼	7
Crescent Corp 5½s 80	—	52½	10.5	14.8	5¼	16¾
Eastern Air Lines 5s 92	B	49¾	10.1	11.2	13¾	24¾
Fisher Foods 6½s 94	BB	68	9.6	10.0	9¾	20¾
General Instrument 5s 92	BB	49½	10.1	11.2	15¾	33¼
Graphic Controls 4¾s 87	B	54	8.8	10.7	9¾	14¾
Gulf & Western Ind 5½s 93	B	51	10.8	11.7	14¾	28¾
Gulf & Western Ind 5¼s 87A	B	53½	9.8	11.5	14¾	23¼
Howmet Corp 4½s 92	BB	58¼	7.7	8.9	13¼	26¼
Instrument Systems 6s 77	B	58	10.3	16.3	9½	21½
Intern'l Min & Chem 4s 91	BB	46	8.7	12.0	10¾	24¼
LTV Electrosystems 4½s 92	B	36	12.5	13.7	5¾	8¾
Lear Jet 5½s 81	CCC	48½	11.3	15.2	8	25½
Levin-Townsend 7s 83	CCC	32½	21.5	24.2	7¾	21½
Lockheed Aircraft 4¼s 92	BB	34	12.5	14.0	10¼	24¾
McCulloch Oil 6¼s 89	—	83½	7.5	7.9	24	32¾
Nat'l Equip Rental 5¼s 88	B	42	12.5	14.2	10	24¾
National Industries 5¾s 88	B	48	12.0	13.5	5½	11¼
Northeast Airlines 6½s 86	CCC	56	11.6	13.3	4¾	13¾
Nytronics 6½s 83	B	43	15.1	18.0	5¾	10
Ogden Corp 5s 93	BB	48	10.4	11.5	9	24
Okonite 4¾s 92	B	31	15.3	16.5	15½	25
Pan Am 5¼s 89	BB	54	9.7	11.0	9¼	16¼
Pan Am 4½s 86	BB	46½	9.7	12.2	9¼	17¾
Penn-Dixie Cement 5s 82	B	60	8.3	11.0	11¼	17¾
Purex 4¾s 94	BBB	57½	8.5	9.4	11½	20
Riegel Textile 5s 93	BB	53¾	9.3	10.2	12	23¾
SCM Corp 5½s 88	BB	62	8.9	10.0	14¾	29
Sanders Associates 5s 92	B	48	10.4	11.5	11¾	32
Saturn Airways 4s 87	CCC	37	10.8	13.6	3¾	11½
Seaboard World Air 5s 86	B	40	12.5	14.8	6¾	11¾
Standard Packaging 5¼s 90	B	49	10.7	12.0	5¾	11¾
Sunstrand 5s 93	B	51¼	9.7	10.8	14½	36½
Trans Carib Air 6s 82	CCC	55	10.9	11.8	3	8½
Trans World Airlines 4s 92	BB	38¾	10.3	11.9	14¾	35
Tyco Laboratories 5¾s 88	B	50	11.8	13.2	9¾	39¾
United Aircraft 5¾s 91	BB	62	8.7	9.6	30	53¾
United Air Lines 5s 91	BB	57½	8.8	9.8	15¾	46
United Air Lines 4¼s 92	BB	48	8.9	10.2	17¾	49¼
U.S. Smelting & Ref 5¼s 93	B	63¾	9.1	9.8	25	42½
Western Airlines 5¼s 93	BB	49	10.7	11.8	10¼	18
White Consol Ind 5½s 92	B	63	8.7	9.5	11¾	17¾
White Motor 5¼s 93	BBB	60	8.8	11.3	13½	32¾
Whittaker 4½s 88	B	38	11.8	14.0	7¾	17¾
Witco Chemical 4½s 73	BBB	59¾	7.6	8.5	16¾	27¾
Wyle Laboratories 5¼s 88	B	42	12.5	14.2	4¾	9½
Zapata Normess 4¾s 88	B	46½	10.3	12.2	14½	24¾

Source: RHM Associates; Forbes. *What the stock would cost per share if it were purchased by buying a bond and converting it.

Seward's Folly Again?

The only railroad in mineral-rich Alaska is up for sale—theoretically. But a would-be buyer might face impossible conditions.

IN A GOOD YEAR the Alaska Railroad can pull in \$20 million in revenues and knock off 60,000 pounds of moose meat—the latter from moose accidentally hit or that have to be shot because they love to graze along its right-of-way. As things now stand, the money goes back to the U.S. Government, which owns the road. The moose, according to state law, must be skinned on the spot—while passengers fume—and the meat is later turned over to local charities.

Still, the moose problem aside, the 522-mile line from Seward to Fairbanks is the only one in a state that is one-fifth the size of the entire U.S. and that may soon outrank the other 49 in its incredible mineral riches. Surely, then, the Nixon Administration's quiet indication five months ago that it wanted to sell the 56-year-old road should have the speculators buzzing like flies around a caribou hide.

That didn't happen for several reasons. First, there was the little matter of revenues. Reginald N. Whitman, the Department of Transportation's federal railroad administrator who supervises the running of the road, guesses that revenues might have to triple to some \$50 million-\$60 million to yield a profit to a private operator. Then there's the question of price: the Budget Bureau mentions a figure like \$100 million, or over 300 times the road's "earnings" of \$300,000-plus in its latest fiscal year, under the pres-

ent setup where the road pays no income tax or interest on fixed investment. Now \$100 million is more cash than most people have handy. But getting favorable terms from the Government would be a good way to guarantee spending much of one's life before investigating committees.

Trouble with the Pols

The heart of the problem is the attitude of the state's leading politicians, who differ sharply on what would constitute an acceptable purchaser. But all are very fussy about how the railroad should be run. Alaska's senior senator, liberal Democrat Maurice Gravel, opposes its sale to the state, but adds: "If we sell it to just anybody, what do we end up with—something like the New Haven?"

But Theodore Stevens, Alaska's Republican senator (and Gravel's political archenemy), has another view: "I don't care who owns it, I just don't want this to become another stock play. Actually, the state has done a good job with our ferry system and our airports. Maybe the Federal Government ought to turn the road over to the state. After all, the Government recouped its investment many times over from the road's military service."

Then there is Alaska's best-known citizen, Interior Secretary Walter J. Hickel, who is still probably the most influential politician in the state. "Only a transportation company should be

allowed to own the railroad," Hickel says. "Remember, the Government has an obligation of ownership. After all, the land is always going to be owned by some unit of government." He is also a railroad expansionist: "Even without all those ore and oil deposits the railroad should be expanded. They [federal officials trying to sell the road] are looking at it the wrong way. Why, we could sell revenue bonds!"

Hickel's big pitch has been for a single corridor to the North Slope that would be shared by the railroad, a pipeline and perhaps a highway too. The kind of money involved can be judged from the estimate made two years ago by the Federal Field Committee for Development Planning in Alaska. It put the cost of the two most urgently needed rail extensions—405 miles to the copper fields at Kobuk and 250 miles to the northern oil fields—at \$264 million.

What these attitudes mean is that any would-be purchaser is going to be scrutinized thoroughly in advance before he can pay his money. Then, after he technically has control of the road, he might be under all manner of pressure to charge rates and carry out expansions that had nothing to do with the economic operation of the road. He may still be required to turn over moose victims to charities. In this setting, it wouldn't be surprising if the buyers stayed away in droves. ■



Real Estate: On the Brink?

The public is moving into real estate again. Can trouble be far behind?

A BLACK MYNA BIRD squats in a Victorian-style cage in the waiting room of a Los Angeles real estate investment firm, A.J. Groesbeck Associates. To every visitor he squawks: "Tax shelter, tax shelter." That's the extent of the old bird's vocabulary; but to those visitors who have been suffering through the stock-market crash, who are paying income tax rates of 50% or more and who are worried about inflation, such words must carry an appealing ring.

Art Groesbeck and his bird talk tax shelter to middle-income business and professional people, people with annual incomes of \$20,000 to \$100,000. Most of them Groesbeck puts into the limited partnerships of apartment syndications. His talk falls on willing ears these days. Only recently on his own, Art has opened 12 offices in the U.S. and expects his syndications to grow fourfold to \$28 million in 1970.

Strange Land

The Los Angeles experience is not isolated. The switch out of the relatively well-charted area of the stock market into the fragmented, arcane world of real estate is under way for many people. Two months ago in San Francisco a Pacific Coast Real Estate Exchange was formed to match buyers and sellers by computer. The exchange's promoters speak of real estate holdings the way New York stockbrokers talk about blue-chip corporations. Land sales sound like clean-cut stock trades.

Real estate syndications, a fad in the late 1950s, have regained much of their popularity, especially in California. And some Wall Street houses are pushing these capital pools again. In the 1950s, they were often a bonanza for sharp promoters. Organizers would take a one-third interest as their fee, quickly sell their equity and leave the remaining owners to worry about management problems. When the 1962 recession arrived, many small investors were left stranded while lone-wolf entrepreneurs ran off with the pots of gold.

Syndications sound good. Cash flow, while the investor is building equity, may well hit 8% a year. And there is the ever-present tax shelter as the property is depreciated. It is possible for a \$10,000 investment to generate a \$12,000-\$13,000 tax loss in the year of investment.

Another vehicle for public partici-

pation in realty is the real estate investment trust. With its varying trust forms, equity, mortgage or a combination, the REITs offer great flexibility. The trust may delve into prime suburban shopping centers or office buildings that it has sponsored and will lease back to blue-chip corporate clients. Or it can dip into construction and development loans returning 14%.

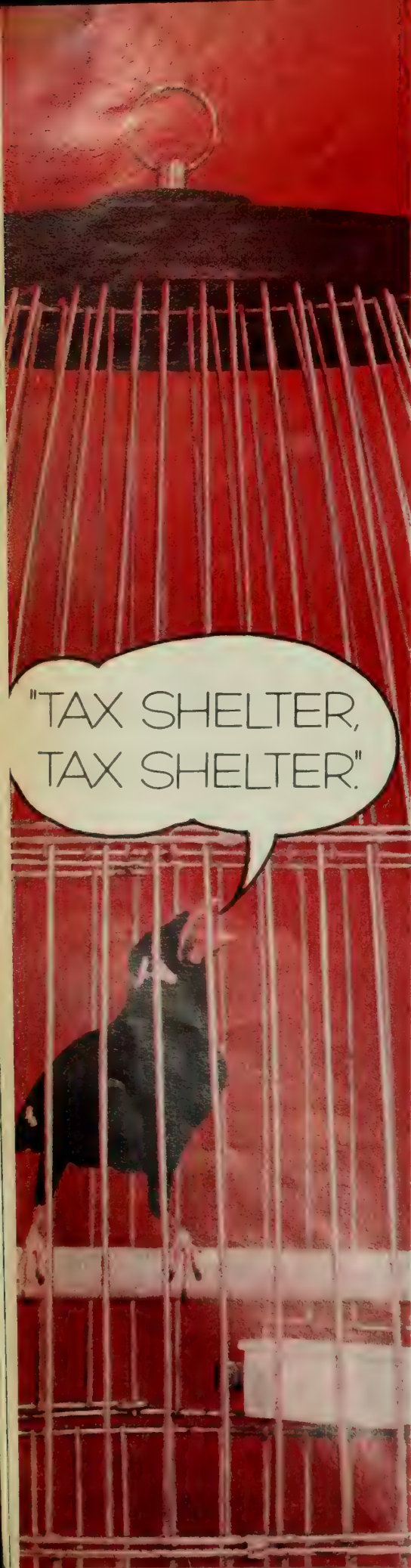
Some realty men, naturally, are delighted with the trend. Others are not so sure. These naysayers believe the real estate industry may be headed for its first real shakeout since the depression days of 1930. They suspect that the new public interest could be, as it so often has been in the past, the final stage in a virtually unbroken 35-year bull market in real estate.

The Light and the Dark

Two men, who have played with Manhattan real estate as if it were so many sandbox toys, sum up today's light and dark contradictions in real estate. "Real estate is a sizzling product," says James O. Boisi, senior vice president of Morgan Guaranty Trust Co. "It's an infectious thing, and once you get involved, no matter in how small a way, it becomes addictive, it gets to you." Boisi remade the face of New York's Park Avenue and the air over Grand Central Station (by letting in the Pan Am Building) while serving as realty director for the New York Central Railroad. The building boom he helped start in the center of Manhattan has just got to keep pushing outward, Boisi figures.

"You can easily get stung in real estate," says William Zeckendorf Sr., now the consultant to a development firm run by his son. "If you can't evaluate properties properly, if you don't have the right managers, there can be pitfalls. If you're all loaned up, there are only limited returns." Zeckendorf knows all about the pitfalls. His Webb & Knapp real estate empire was a marvel of pyramided debt when, in 1965, the Marine Midland Bank called an \$8.5-million note. The empire promptly crashed into bankruptcy, from which it is still being untangled. Zeckendorf thinks the country is entering a real recession, and he is skeptical about the sudden interest of so many Wall Streeters and smaller investors in the real estate market.

Zeckendorf's empire was, in retrospect, an early victim of tight money; it fell during a prelude to the Money

A black myna bird is perched inside a wire cage. A speech bubble originates from the bird, containing the text "TAX SHELTER, TAX SHELTER." The background is a solid red color.

"TAX SHELTER,
TAX SHELTER."

Panic of 1966. For Zeckendorf worked on a very simple principle, one that may no longer be valid. The principle was that borrowed money was cheap money, and the more you could borrow the more you would make. The idea worked as long as interest rates were relatively low and the big capital-forming institutions were too timid to try equity investment on their own. The borrowed money was there for the asking. It was passive money, almost begging for aggressive promoters like Zeckendorf to put it to work. But interest rates began climbing; from 4.5% to 6% to 8% and, finally, to 10%, 12%, even 14% on leveraged real estate deals. Even at those high interest rates, money became hard to get and hard to keep. The principle of leverage no longer worked so well, for borrowed money was no longer cheap money.

Yet real estate men still sell the virtues of leverage. They argue that borrowed money is still cheap—looked at from the long-range point of view. They point to the many positive economic factors that give long-term thrust to real estate. While there were only 40 million persons living on the nation's land a century ago, some 320 million mobile, affluent citizens are expected to share its 2.3 billion acres in the year 2000. The demand for our earth has boosted land prices 100% in the past decade alone, says the Urban Land Institute. The \$30-billion-a-year increase in land values is more than the earnings of the top 500 U.S. corporations. Rents are at record levels along with home prices. Good industrial land continues to go at a premium. And while a few years ago investors would shun building a 10,000-square-foot structure on speculation, a 100,000-square-foot speculative industrial property is common today, says J.D. Sawyer, president of the Society of Industrial Realtors.

So, the developers say, why worry about high interest rates—especially when the borrowed money will be paid back in depreciated dollars?

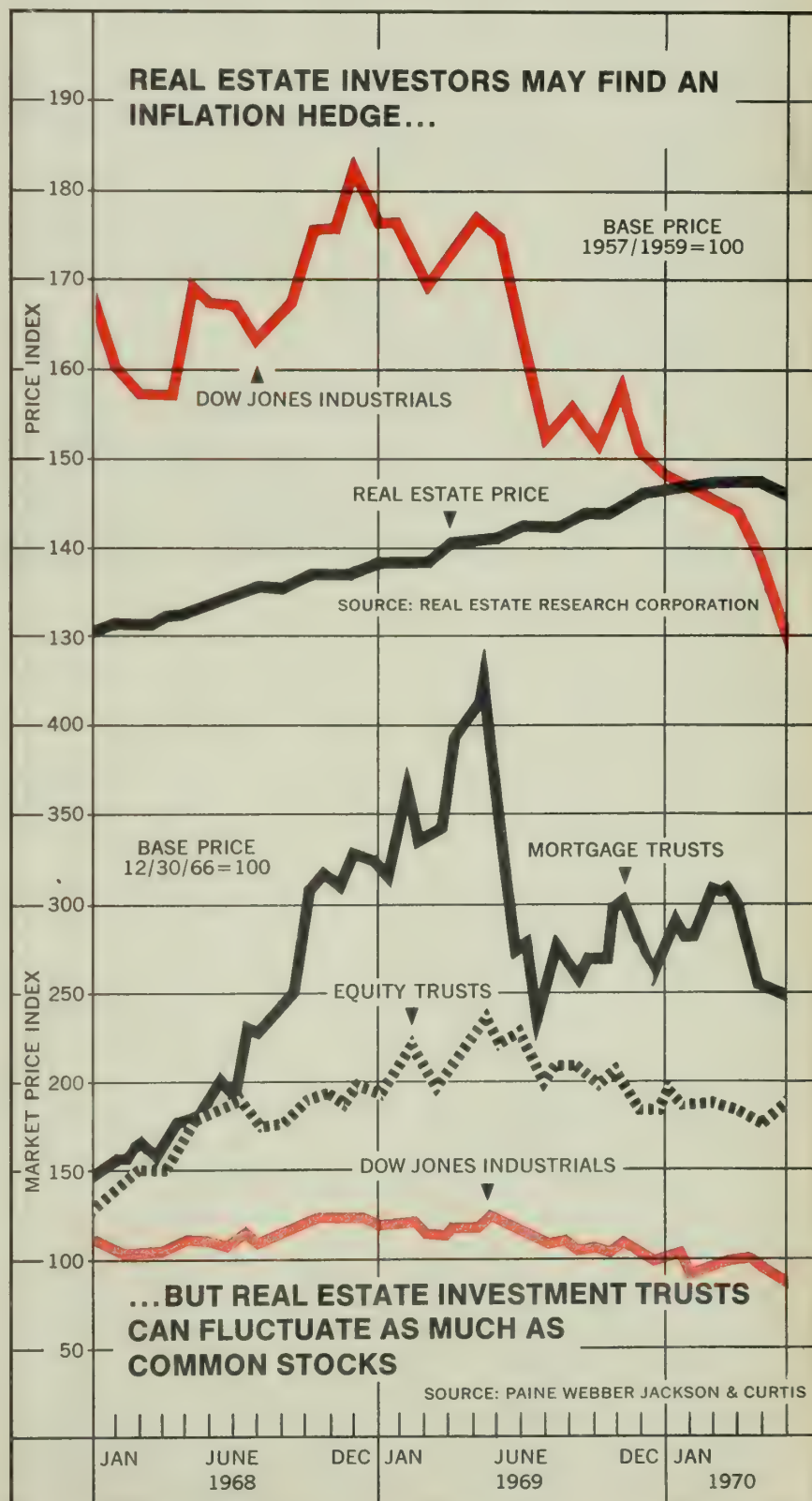
Some reliable indexes even show real estate out-performing the stock market. One marketing firm, Real Estate Research Corp. of Chicago, for example, has developed a broad real estate price index that has moved up a solid 27% since 1965, and with the market crash has now passed the Dow Jones industrial average.

But at the time real estate investment seems so right, activity in the form of realty transfers has dropped to a three-year low, says the Roy Wenzlick Research Corp. of St. Louis. A fantastic 41 million square feet of new office-building space is being opened in Manhattan in 1970-71. But in

both the Wall Street and midtown areas, rentals have recently dropped by as much as \$5 a square foot. "This especially hits the builders who came into these boom areas late," says New York real estate man Julien Studley. "In real estate, when you rush in just because everyone else is rushing, usually you're the guy who gets caught."

Meanwhile, taxes are rising, maintenance costs are soaring. Even properties with escalation clauses written into their leases must face the very real threat of tenant resistance, of vacant space, of renters getting by with smaller quarters.

Given such contradictory signals, the recent explosive growth of real es-



Zeckendorf

The autobiography of the man who played a real-life game of Monopoly and won the largest real estate empire in history.



Second Career. William Zeckendorf will tell about the fall of his realty empire and his personal recovery in a book appearing Aug. 24.

tate investment seems almost abnormal. The biggest boom of all has been among the real estate investment trusts, which have found a new lease on life after foundering in 1962. They are now gobbling up most of the capital funds going into the real estate area. The number of REITs has ballooned from 61 in 1968 to 129 (at last count) with more than \$3 billion to invest.

Where the Money Is

When Congress made the trusts legal again in 1960, it was thought they would serve as a vehicle for the small investor to get into real estate. But they have proved more popular with institutions and well-heeled investors. They were also expected to invest in ghetto and urban development properties. The National Corporation for Housing Partnerships, formed for this same reason, is having a difficult time getting off the ground. Meanwhile, most REITs have put their chips on equity or mortgage investments in suburban apartments, office buildings and shopping centers.

REITs are the closest thing the real estate industry has to mutual funds. But they are much more loosely regulated than the funds, and they are a

creation of complicated tax laws. If more than 90% of their income is distributed, the Treasury affords them tax-exempt status. And they have a good deal more leverage than the funds, some building up to a 4-to-1 debt-to-equity ratio.

Although the capital structure of REITs most nearly resembles that of finance companies, they have won some well-established supporters lately. Holding companies of big banks such as Bank of America and Chase Manhattan have launched trusts. This involves a kind of double play in which the banks can profit from advisory fees and channel their old customers into line for construction and development loans. Life insurance companies are coming in, too. Connecticut General and Mutual of New York have weighed in with trusts of \$100 million each. Prudential Life is said to be working up a \$400 million REIT.

Wall Street likes the trusts, too. While beefing up or creating real estate departments recently, some brokerage houses also have taken the REIT route. The new real estate subsidiary of Merrill Lynch, Pierce, Fenner & Smith has fully invested its \$100-million equity trust. Among its properties are sale-leasebacks to Safeway

Stores, Chrysler and W.T. Grant Co. And the mutual funds are moving in. Paul Fenton, head of the \$60-million Ivy Fund, is 15% in real estate, and most of that is in REITs. Fenton thinks the pent-up demand for housing will keep them in business. "No matter what happens in Vietnam or Cambodia," he says, "no matter if they fall, we've got to have new housing or we're going to fall."

Fenton likes to pick up REITs when market value is near book value, and then watch their leverage go to work. Continental Mortgage's market value, for example, was recently some seven times book. Kenneth Campbell, who issues a respected newsletter on real estate securities, doesn't believe REITs are really for the speculator. "They just don't have the price moves," he says. He pegs the average REIT yield now at about 7.8% a year, and figures there is lots of potential for the long-term investor.

Campbell's reasoning is roughly as follows: The nation must have housing; the old ways of financing housing may have become obsolete; REITs may well be the wave of the future. He guesses that they will begin to draw in some of the money that now goes into savings banks, savings and loans, common stocks and insurance. In other words, the REITs will bypass some of the old middlemen who formerly channeled funds into real estate; this is the process known as disintermediation. "The potential for disintermediation hasn't been scratched yet," Campbell says.

New Muscle

Veteran real estate men seem a bit bewildered by the activity. They have their doubts. "It's the style to get into real estate," says James C. Downs Jr., chairman of Real Estate Research Corp. "Styles are not necessarily based on fact." "People are buying paper, not real estate," says Carl Madonick, former New York City real estate commissioner. "I would think that a real shakeout in REITs would have to come." To Zeckendorf, it appears "lenders have just discovered borrowers have been running away with profits while they were left with the risk."

Speaking from his own hard experience, Zeckendorf refers to the growing tendency of big corporations and of moneylending institutions to go into real estate on their own. Naturally, this makes realty investments by individuals more risky, because the big fellows with the big capital can usually grab the best deals.

More than 200 of the top 500 corporations are now heavily committed to real estate activities. "They are able to apply management talent to the

field," Morgan Guaranty's Boisi says. "And they have capital, that kind of patient capital you need in real estate." Caught in the credit crunch, the lenders have begun to jump in also by demanding a percentage of the equity, a piece of the action, more often in construction and development loans. Tishman Realty and Construction, for instance, recently gave up a 50% equity in one of two new Manhattan skyscrapers to be financed by an offshore mutual fund. Such deals are making the traditional mortgage obsolete, many observers feel. "With Eurodollars going out at as high as 14% and things tight as a drum here, we just have to have equity," says the mortgage loan officer of one major bank. A natural result is joint ventures like that between Kaiser Aluminum and Aetna Life & Casualty.

"This used to be largely a one-man

business," says Howard P. Hoffman, a New York real estate consultant. "Now I guess you could say it's more sophisticated." The new muscle in real estate has caused a raft of mergers. Some mortgage brokers feel that the small guy is about to be eaten alive. Real Estate Research Corp., for example, plans to merge into First Chicago Corp., a holding company for the First National Bank of Chicago.

More also is being done with computerized research, packaging of real estate and marketing. Some realtors see ahead the advent of giant real estate corporations that can outdo a big firm like Tishman in handling deals all the way from blueprints and financing to parking cars and maintenance. Money would be raised through regular corporate debt issues.

What worries some real estate men is a shortage of talented men in the

field. "Expertise is extremely limited," Studley says. "Those newcomers, especially the big corporations, can develop their real estate assets fairly rapidly. But it takes a long time to develop a new breed of expert."

Downs feels that neophytes have already paid overly high prices for their acquisitions. "Everybody is hopping on the bandwagon," says Peter Marr of Coldwell, Banker, California's largest real estate company. "Because some guys can sell the merchandise, through salesmanship rather than quality, people are getting marginal properties and projects. This then inflates the value of other properties. It's a very troubling thing in our marketplace today."

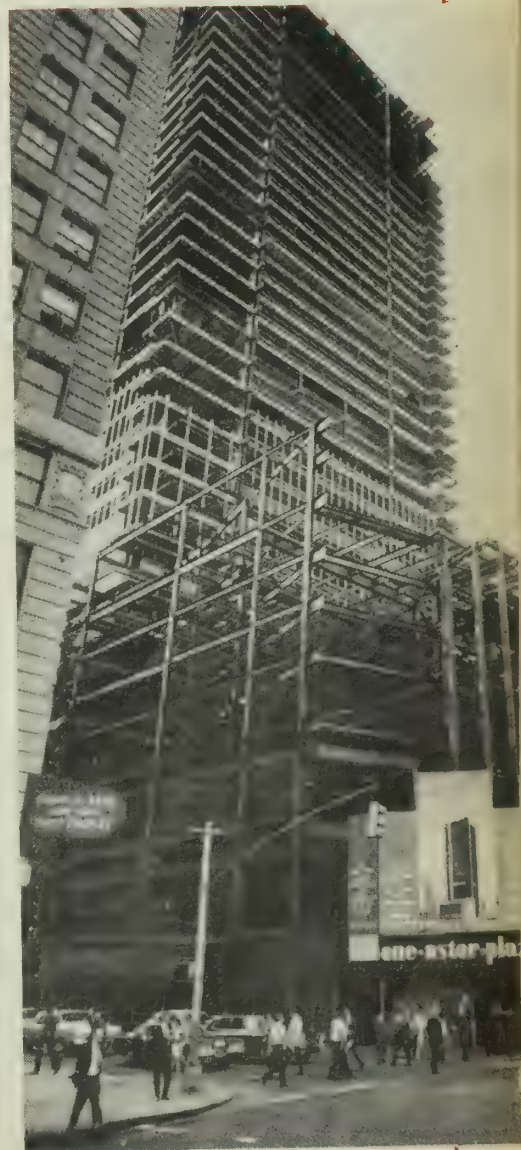
The old labels—tax shelter, inflation hedge, leverage—are bantered about in the selling effort. Not all of them are valid today. Jim Boisi believes the

Cliffhanger

THE OLD ASTOR was America's grand hotel, the place where couples from Kansas City stayed on New York trips, where revelers from Plainfield, N.J. watched the New Year explode along Times Square. With its French Renaissance facade and lobby colonnade of marble and gold, the Astor stood out from its dowdy surroundings in lonely dignity from 1904 until the wreckers arrived in 1967. One of the last owners, William Zeckendorf, dreamed of converting the site into another Place Ville-Marie (Montreal), with a giant office tower and svelte shopping arcades.

But Zeckendorf's firm went broke, and now New York builder Sam Minskoff & Sons, together with a Lehman Bros. group, is erecting a jazzy 54-story office building complex on the site of the old Astor. But they have yet to obtain permanent mortgage financing for the \$75-million project scheduled to open in 1971.

The problem is a titanic money battle going on all over Manhattan, where 22 major office buildings are to open this year and 25 next. Each extra interest point cuts the builder's cash flow by about 70 cents a square foot—and One Astor Plaza has 1.2 million square feet. The Minskoffs say they are waiting to get a mortgage loan until the building, about half rented now, is three-fourths full. Meanwhile, temporary financing costs plenty. Who says real estate is safer than the stock market? "It's like Russian roulette," says one observer.





Developer. This farm worker may not realize it, but the California lemon trees he's pruning are part and parcel of a Kaiser Aetna plan for developing raw land.

new tax reform law has had a "disastrous effect" on tax shelter. The time may come, he feels, when many tax shelters will become tax burdens and investors will be forced to sell at

a discount. With its new limits on fast writeoffs, the tax law will especially hit the re-sale market for commercial real estate, and add \$1 billion a year in federal taxes to the industry.

Even land, it may turn out, is not quite so scarce as some people think. As Campbell notes, only 2% of U.S. land is now devoted to urban uses. It is expected to be several decades before that percentage doubles, which leaves a lot of land that won't boom overnight. Today, with the cost of money at 10% to 12% and taxes at 2%, raw land has to appreciate at 12% to 14% a year for the average investor to break even.

What could really throw off optimistic sales predictions would be for real estate to get caught in an income squeeze. Many mortgages and leases are made with the assumption that rents and realty prices will continue to climb. But in some urban areas, hard-pressed tenants are beginning to organize like labor unions to force rents down. Office space leases are becoming harder to market. And home sellers in some areas are just beginning to accept lower prices. Pressing in from

the other side is tight money. "I think we are at a stalemate," Coldwell, Banker's Marr says. "You can't borrow money, and if you do borrow money, it costs you more to borrow than you can make."

Time of Trouble?

Surely, a good many people are going to be burned following the real estate road. For there is no Securities & Exchange Commission to protect realty investors, and no full-disclosure laws as such.

"You can't take real estate apart the way you do stocks and bonds," agrees Selig Brooks, director of institutional research for the New York Hanseatic Corp., a large over-the-counter house. Like many Wall Street firms, Hanseatic is looking closer at real estate-related issues. "It's fascinating," Brooks says, "but it's also complicated."

For the individual investor, the hazards of handling a real estate project on his own are legion. Expenses can easily run 40% or more of gross income, not to mention mortgage costs and possible liability suits by disgruntled tenants. Rents have risen naturally with construction costs and the gen-

Convert

PETER A. COOK, ex-brokerage house registered representative, has gone over to real estate. He speaks of his shift from Dean Witter & Co.'s Los Angeles office to Pre-Builder Land Corp. in the tones of a religious convert, and now handles land deals with the same fervor he brought to selling stock. Good salesman that he is, he rationalizes his switch in enthusiastic terms.

"Brokers work at a tremendous disadvantage," Cook told *FORBES*. Los Angeles bureau chief Art Detman Jr. "The main one is a lack of information." Cook feels that "too often people buy at a spiked price, one that has already discounted the new developments in a company. They're down 8% to 10% at the starting line."

Cook did have his moments of fulfillment as a stock broker. In the bull market of 1968, he says, he helped one lady customer make \$58,000 on her capital of \$100,000. But handling volatile stocks was none too easy, even in bull-market days. Faced with thin research, and with paperwork piling up in the back office, Cook says he became his own research man and clerk as well as salesman. "So then you are handling about 200 accounts, which a successful broker has," he recalls, "and you've got ten positions, which

is all you can possibly manage." When the market breaks, a good broker looks after his customers. "But you may have two or three minutes to call 200 people. That's a physical impossibility."

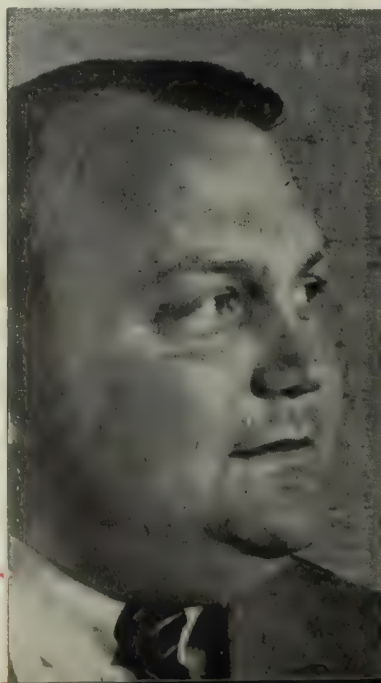
Brokers also are hedged in by powerful outside forces, Cook believes. On one side are corporate customers for which the brokerage house handles underwritings: "Underwriting is a large part of brokerage house profits. This is unfortu-

nate because they find themselves sandwiched between underwriting clients and selling mutual funds that put their own business through the brokerage firm." So the broker has the triangular task of keeping both sides happy while trying to make his customers wealthy.

Cook doesn't find the same problems in a real estate investment firm. And sweetening the difference is a contrast in commission rates. When Pete Cook sold stocks, he generally received about 30% of the commission charged by Dean Witter, which averages 1% of the dollar amount. On a \$5,000 transaction, Dean Witter got about \$50 and Cook got around \$15 of that. But in real estate, that same \$5,000 can buy land valued at \$20,000; Pre-Builder Land's commission (paid by the seller) is 10%, or \$2,000. Of this, Pete gets 40%, some \$800. (The brokerage commission on improved property is less, usually 6%.)

But are most investors likely to fare better in real estate? At least—in the absence of daily quotations—they probably will have less of a strain on their digestions. "Some people worry an awful lot about stock decisions. Land may be more suitable for them," Cook says. Perhaps. Certainly it seems much more suitable for Cook.

Cook of Pre-Builder Land





Finisher. Developer Jerry Wolman had to sell his interest in a 100-story Chicago skyscraper to the prime lender, John Hancock, at a \$5.5-million loss. Now the insurance firm has finished the \$100-million project and moved in regional offices. Employees, who also can live, eat and park at the John Hancock Center, look out on Lake Michigan and the old stone water tower that survived the great Chicago fire of 1871. With side braces and a raft of supporting tenants, Hancock figures the center will survive both high winds and tight money.

eral inflation. But living patterns are changing fast. A profitable apartment house for affluent bachelors can in a year become a nesting place for welfare recipients who can push down rents. Many a once valuable piece of urban real estate has been let go for taxes in recent years. Some have been simply abandoned.

Raw land slated for development may well appreciate 5% to 20% a year, but sometimes it may not appreciate at all in today's tight money market. Much of it has actually fallen in price. Some reportedly high prices are actually misleading. They may involve exchanges made at inflated levels just for tax-shelter purposes.

Many individuals have been attracted to land development by knowledge of the fact that many big, smart corporations are going heavily into land development. Companies like Kaiser Aetna, Chrysler Corp., Penn Central, Alcoa and Boise Cascade. If it's good for these big fellows, isn't it good for the smaller private investor as well?

No Magic in Land

Not necessarily. The big companies are actually buying wholesale and selling retail. They acquire huge tracts, develop them in whole or in part, then sell them off in smaller tracts for plant sites, for recreation or for housing. The big corporations have the assets to do this developing; few individuals do. There is a world of difference between land development and land speculation.

Naturally, this point is not emphasized by the land development companies in California, Arizona, Florida and elsewhere with their staffs of high-pressure salesmen. Sales of tiny homesites and retirement havens, promoted by free steak dinners and jet-plane trips, have risen by 25% or more in recent years. A strong selling point: "These homesites are good speculation." But *are* they? When the land developer has already marked them up as much as 1000%?

The land investor can, of course, turn to other vehicles. There are land investment firms, land mutual funds and land brokers who analyze properties and then, like stockbrokers, lend most of the purchase price on margin. But money to finance this kind of purchase is drying up today—except among the very rich. And where available it is horrendously expensive. So expensive that the buyer's chance of coming out ahead are very slim after he pays sky-high interest and extremely fat commissions.

Morgan Guaranty's Boisi points out further that the real estate market today is extremely thin and selective:

Remember Oklahoma? That was the big land rush at the turn of the century. Developers still try to bring out a similar spirit in homesite buyers by lowering their defenses with free dinners and plane trips to land promotions far from home. Sometimes buyers get in early on a boom and friends call them smart. But more often the developer has hiked the price of the property more than it can appreciate in a decade. Land development and land speculation need not be cut from the same cloth.



"You can't just throw a dart and expect to hit a winner." Put another way: A real estate investment, no matter how conveniently packaged, is no better than the property underlying it at the price paid for it. Some of today's packaging may turn out to be just a new way of selling second-class properties at first-class prices. When good property is available at a fair price, the chances are not very good that the ordinary investor will get a crack at it.

It may be that real estate can avoid a major crash. All the same, there could be a painful shakeout when investors come to realize that real estate, like stocks, is neither a guaranteed inflation hedge nor anything like risk-free. ■

The Money Men

John Lobb's Orphan Asylum

MAYBE it's the times. The young fellows, the go-go types, the instant conglomerators had things pretty much their way on Wall Street for a few years and they made a mess of things. Now here's a man, he's 56, which isn't young by any standard, who thinks he can pick up some of the pieces and lead a whole new trend in industry.

His name is John Lobb. He has been around a long time, both in industry and in finance, successful but not brilliantly so. Now he thinks his time has come to do some really big things. The kind of thing he has in mind he doesn't think can be done by kids. It has to be done by somebody who knows both finance and industry and who understands that progress doesn't move in a straight line.

John Lobb wants to start a kind of shelter for corporate orphans. He thinks the emphasis is going to change from merger to de-merger, from conglomeration to de-conglomeration, from acquisition to spin-off. He sees a golden chance for somebody who can pick up the discards, make them whole again, put them together in new and more sensible combinations. Since *FORBES* has already predicted a similar trend ("Watch That Waistline" May 15), we were glad to lend Lobb a sympathetic ear.

"I don't see a major depression ahead," Lobb says. "I do see a major restructuring of corporations." A big straw in the wind, he thinks, is General Electric's recent spin-off of its computer division to a new corporation run by Honeywell. "There will be others like this coming up," he says. "Especially where conglomerate mergers were made in haste, where companies acquired unwanted operations or where their goals and objectives have changed."

Lobb certainly has a point. Only recently, Celanese sold its big and profitable Champlain oil operation (to Union Pacific Corp.); not because it was no good, but because Celanese needed the money elsewhere. L-T-V has already sold Wilson Sporting Goods to PepsiCo and has Braniff Airways for sale. Northwest Industries would like to sell its railroad. It is no secret that other companies, conglomerates and otherwise, have divisions for sale. The

GE case was almost a classic: GE still believes in computers, but it apparently decided that its money and efforts could be put to better use elsewhere in the business.

Some of this, of course, will be distress merchandise, good for nothing but liquidation. Other spin-offs, however, will involve perfectly good businesses, like GE's computer operation or Champlain—healthy orphans looking for a home.

Good Teachers

John Lobb, a liberal arts graduate of the University of Minnesota (Class of 1934), who also holds a law degree from the University of Wisconsin, spent a couple of years working around Chicago for money man Patrick Lannan. Lannan was one of the moving spirits behind International Telephone & Telegraph's revival under Harold Geneen. Lobb ended up working for Geneen as an executive vice president, responsible for 22 of ITT's domestic operations. Getting the bug to run his own company, Lobb landed the job as boss of Pittsburgh's Crucible Steel after West Coast money man Norton Simon bought a controlling interest.

Lobb wanted to do a Geneen, turning Crucible into a conglomerate. It was sold out from under Lobb before he could go very far, but by now Lobb had worked with and learned from three of the smartest, toughest operators around: Lannan, Geneen and Simon. Last July he took his experience to Wall Street and became the oldest vice president of the young (ten-year-old) house of Donaldson, Lufkin & Jenrette. Lobb was not especially interested in the brokerage business. He says frankly that he hopes to use DLJ as a base for his activities in the forthcoming corporate unscrambling process.

"Over the past year or two," he says, "I've talked to 40 or 50 big corporations about relieving them of divisions that didn't fit or didn't have promise for them. Most of them laughed. But now, with money at 10%, some of them have started calling back.

"The whole atmosphere of uncertainty in the country is forcing presidents to take harder looks at their companies. Banks and direc-



Lobb of DLJ

tors are getting nervous. They want to reduce commitments."

When he worked for Harold Geneen, Lobb spent a lot of time in Japan and working with Japanese businessmen. He thinks the Japanese zaibatsu pattern may be the answer for some of the forthcoming orphans. Zaibatsu are not the same as American conglomerates. They are pools of management and of capital that take positions in companies of all kinds and help them grow and prosper; a zaibatsu doesn't necessarily own the affiliates entirely; it normally owns just enough of an affiliate for working control. This is not very different, in fact, from the kind of operation that French money man Jacques Georges-Picot runs at Compagnie Financière de Suez et de l'Union Parisienne (FORBES, May 1).

We pointed out that call it zaibatsu, call it multicompany, call it what you will, the conglomerate idea seemed discredited. Why should he want to start a fresh one?

"Don't judge all conglomerates by Ling-Temco-Vought and Gulf & Western," Lobb replied. "The first group of conglomerators had a clear vision of what they were doing. They were run by operating men. They were building. They weren't just shuffling paper."

"The second group were imitators, who tried to copy Geneen or Tex Thornton."

"The third group were largely financial manipulators, and they gave the whole idea a black eye."

"There's nothing wrong with the basic idea of putting different kinds of businesses under a common management. Look at what Geneen has done at Avis. Profits have tripled. Look at the after-market auto parts business he has built up in Europe."

Still, Lobb doesn't expect simply to copy Geneen. "What I have in mind is a kind of private Reconstruction Finance Corporation.* It would be a private company; public participation wouldn't work with people so disillusioned with conglomerates. I'd like a combined management capital company with a big pool of capital. Maybe insurance companies would participate. Maybe big companies with capital to spare. My zaibatsu could shelter all kinds of companies and try to turn them around. As the profit pic-

ture turns, units would be sold off and others added."

Lobb admits he's talking about large sums of money and agrees it won't be easy to raise in today's market. Nor has he had much luck persuading big companies to put surplus capital to work.

"At DLJ we talked to one multi-billion dollar oil company about setting up a venture capital firm. They put a lot of their time into it and we felt it was a daring and exciting move. But when we asked about figures they said they would invest \$5 million in total in amounts no larger than \$100,000. We told them their grandchildren wouldn't live long enough to see the effects of such a small investment in relation to the company's size. Invest \$1 billion, we said. We still haven't heard from them. I guess they couldn't think of investing that much outside the oil business."

Under these conditions, Lobb is scaling his expectations fairly modestly. "I think I'll try to get \$50 million and go from there." Once started, he thinks the idea will attract bigger sums. "There will be a lot of money made restructuring American business. You have to make the hard decisions, but the job performs a needed social function."

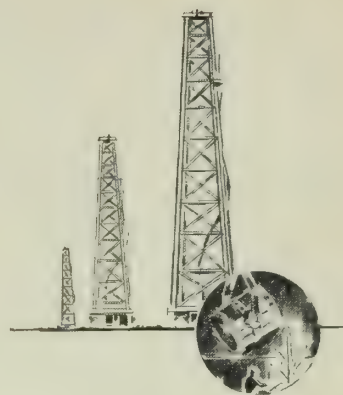
"I am convinced that something like this would be a true vehicle for the times."

Does Lobb's idea sound like a conglomerate in a kimono? In a way, yes. And wouldn't his corporate orphanage have the same problem that the original parent companies had: how to raise money in a cash-short economy?

We suspect that there are drawbacks aplenty to Lobb's plan. Still, troubled times call for imaginative solutions, and certainly Lobb has plenty of guts to try organizing something like this under present conditions in the money and stock markets. We said so, and his reply told us a good deal about why he doesn't think that he's too old, even at age 56, to start something this big and this new.

"You know, I grew up in the Depression of the Thirties, and when you live through something like that you don't panic so easily. You have a lot less worry than these young people who, just because things are messed up, think the world is coming to an end."

"Life does go on, you know." ■



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*An agency set up by the Government during the Depression to lend to major U.S. companies.

"My Time Is Running Out"

Bill Keeler promised he would lift Phillips Petroleum's low profitability. He has three years left to keep that promise.

WHEN William W. Keeler became chief executive of Phillips Petroleum Co. in 1967 he took over a laggard \$2-billion-sales giant. Heavily diversified into markets—fibers, plastics, chemicals—where prices had turned weak, Phillips showed an average return on equity over the previous five years of only 10%, compared with the industry average of 11.5%. Its five-year earnings growth of 7.5% was one of the lowest in the industry. While many oil company stocks were marching to new highs each year, Phillips' stock had wavered in the 20s for the major part of the decade, touching the 30s only occasionally.

Keeler, a 43-year company veteran, was well aware that Phillips' deepest problem was its shortage of crude. Until 1927 primarily a producer of crude, Phillips had launched a successful marketing program that lifted petroleum products sales to \$1 billion in 1967. But crude supplies failed to keep pace. By 1967 Phillips was supplying only 60.5% of its own crude, which was one of the lowest ratios among the oil majors.

Most oilmen believe that the key to profitable operation on a large scale is crude production. Without crude, a refiner-marketer must depend on other

producers for enough oil to keep his refineries running efficiently and his outlets supplied. Keeler's goal has been to find and produce enough crude to make Phillips self-sufficient, and thereby solve Phillips' profit problem.

With three years left until he reaches Phillips' mandatory retirement age of 65, Keeler does not seem to have made much headway. Phillips' self-sufficiency in crude declined from 60.5% in 1967 to 56.5% in 1969. So did earnings, from \$164 million in 1967 to \$128 million in 1969. And Phillips continues to have close to the lowest return on equity in the industry—just 7.7% in 1969.

But it takes time to find and develop crude reserves. "I'd like to be self-sufficient in crude tomorrow at seven o'clock," says Keeler with a smile. "I don't think it's going to happen then, but I think I'm going to be able to do it in three years."

The first thing Keeler did was slash onshore exploration in the continental U.S., the most thoroughly combed area in the world. "At one time we had 16 or 17 seismic crews in this area," says Keeler. "I don't think we have one now." Instead, spending was concentrated in areas like the North Sea, Africa, the Mideast and Alaska's North Slope.

The results have been more than promising. For example, there is the now-famous North Sea discovery, the Ekofisk field, where Phillips has a 37% interest, larger than any of its three European partners. The oil is sweet (low in sulphur, hence low pollution), light (both higher in price and containing more of the so-called "naphtha fractions" that Phillips and its partners need in their Belgian petrochemical complex) and right on the doorstep of the fast-growing European market. Phillips also has its own built-in market in the 100,000-barrel-a-day British refinery it operates jointly with Imperial Petroleum, Ltd. All this, and political stability, too.

The evidence to date indicates that

it is a major field. "We know the structure's there," says Keeler, and the first well has tested at 10,000 barrels a day. That promises a large field, but no one yet knows how large. "Our partners' estimates are 600,000 to 1 million barrels a day. That sounds like a hell of a lot, but not too far-fetched on the basis of finding this much crude in one well," Keeler continues. He anticipates production by 1972 and will be "disappointed if it doesn't make a difference in earnings in 1973."

Not Just North Sea

Of more immediate promise is the offshore oil from Phillips' one-sixth interest in the Iranian Marine International Oil Co. IMINOCO's Rostam field started production in 1969, and is now producing 78,000 barrels a day (Phillips' share is about 13,000). Keeler predicts that Phillips' share will finally reach a minimum of 100,000 barrels a day.

Phillips also has "reasonable prospects" in Nigeria, where production is slated to begin in July. Phillips' share initially will be 10,000 barrels a day, but Keeler believes it will ultimately reach at least 50,000.

The value of Phillips' Alaskan oil is a question mark. The oil is certainly there; and when it is eventually produced, Phillips' share could be over 100,000 barrels a day. But Keeler admits that the North Slope is "tough and very expensive." And he says, "It could be 1974 before it is actually money in the till."

Even without the Alaskan oil, however, Keeler's finds could increase Phillips' crude output by 150%—about 370,000 barrels a day—by 1973, raising crude production to over 100% of Phillips' refining requirements and lifting profits significantly.

"My time is running out," says Keeler. Whether it will run out before the dollars from his crude finds start to flow into profits is still a question. But there is little doubt that Keeler is closer to his goal than he was when he took over the reins three years ago. ■



Then And Now. All-American basketball player Bob Kurland led the Phillips 66ers to national sports fame in the Fifties just before Phillips expanded its marketing into every state. Now Phillips is emphasizing its search for crude (left). The 66ers were disbanded in 1968. And Kurland now runs Phillips' plastic film subsidiary.



From Underdog to Top Dog

That's the recent story of Douglas, now McDonnell Douglas. Meanwhile, its ancient rival, Boeing, is on hard times.

ONCE the sick man of its industry, McDonnell Douglas has become perhaps its healthiest major company. And Boeing, which came close a few years back to squeezing Douglas out of the commercial aircraft business, is today a dangerously ailing firm.

Only four years ago, Boeing had just finished a year of record revenues (over \$2 billion) and profits (\$4.84 per share). It had well over half the commercial jet market. Its stock sold as high as 91, up 400% in three years.

By stark contrast, Boeing's only competitor in that market, Douglas, was in such poor shape that its bankers had taken over and were trying to find a buyer. Douglas had lost heavily in the early 1960s when Boeing beat it to market with the long-range 707. While Douglas was trying to recoup, Boeing locked up the medium-range market with its 727. Then, going all-out to avoid another humiliation in short-range jets, Douglas signed up more orders for its DC-9 than its cash flow, its production capabilities and the unexpected diversion of aircraft engines to Vietnam could handle. Douglas lost \$30 million in 1966 and another \$30 million in the first four months of 1967, after which time it was merged into St. Louis' McDonnell Aircraft, the highly successful fighter plane contractor.

Question of Scale

Boeing, under its longtime (since 1945) boss, William M. Allen, had a clear field as 1966 began. But then it made two decisions with far-reaching implications: It decided to build the wide-bodied, 350-to-490-passenger 747 jetliner and the government-sponsored supersonic transport (SST).

Boeing was thinking big, perhaps too big, when it went for the 747. What made the new jumbo jets possible was technology developed for the powerful, 41,100-pound-thrust engines for the Air Force's Lockheed-built C-5A cargo jet. But the four-engine 747 plane wasn't the only possible choice. Another was a three-engine version—the airbus—that could ferry 250-plus passengers in equal comfort over the many medium-range domestic routes like New York-Chicago and Dallas-Los Angeles. The 747 might be the flagship, but the airbus could be the workhorse airliner of the 1970s.

Boeing's thinking was influenced most by faithful customer Pan American World Airways. Pan Am in 1966 was prepared to commit itself to a sizable order for wide-bodied passenger jets; it wanted a large (up to 400 passengers or more), long-range plane that could fly its transoceanic routes. Heeding Pan Am's now retired Chairman Juan T. Trippe, Boeing's Allen elected early in 1966 to go ahead with the larger 747—which meant bypassing the airbus.

Allen's decision was based partly on an assumption: that if the smaller, shorter-range, wide-bodied plane ever did generate enough airline enthusiasm, Boeing could quickly redesign a smaller version of the 747. But Boeing underestimated the potential competition. Lockheed, once a leader in prop-driven transports, was looking for a way back into the passenger business. Douglas, though it had production and money troubles, still had strong design and marketing capabilities. Both immediately set teams of engineers and designers to work on airbus

models. Both came up with planes that, with slight alterations, could fly both medium- and long-range runs, and thus were more flexible than Boeing's larger 747.

The airbuses, with their smaller size and greater flexibility than the 747, caught on with airline men. Before Boeing could react, Douglas and Lockheed were out signing up orders. His back to the wall, Allen began calling on airline presidents to tell them that Boeing would soon have an airbus of its own. Too late. By mid-1968 the airlines had already ordered dozens of DC-10s and L-1011s, at prices that had been bid down to a level (around \$14 million-\$15 million per plane) where even Douglas and Lockheed admitted that the odds on breaking even had been substantially lengthened. There was no room for a third competitor; Boeing had missed the airbus.

Early this year Boeing began delivering the first of the 197 747s on order (at \$23 million each). But with the airlines in an unforeseen financial pinch, further orders have been slow to materialize. Some orders have even been cancelled (despite a \$10-million deposit on each plane), and others have been stretched out to later delivery dates. At the same time, deliveries of Boeing's smaller 707, 727 and 737 jets have been declining as airlines cope with their overcapacity and heavy debt loads and prepare for the changeover to wide-bodied fleets. The 747 is proving a good traffic-getter on routes like Los Angeles-New York or New York-Paris. But it may be years before Boeing sells enough of them to get its investment back.

The strain on Boeing's cash flow and

Loss Leader? The only thing small about the 747 may be the profit, if any, Boeing nets on the plane.





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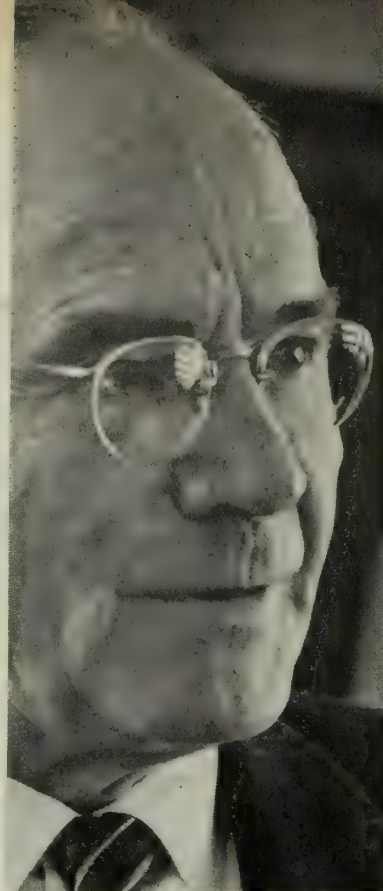
profits has been great. Its earnings last year, on 12% lower revenues of \$2.8 billion, dropped all the way from \$83 million into the red—although a tax credit enabled it to report 47 cents a share, down from \$3.84. Its long-term debt has soared to almost \$700 million, and the company has taken down most of a \$359-million line of short-term bank credit. Its inventories total around \$1.4 billion. Its stock price has plunged from 112 in 1967 to around 15, precluding any kind of equity financing to alleviate the cash pinch. Even though Boeing has written off perhaps as much as \$500 million in 747 development costs, another \$500 million or so is still carried on the books as an "asset" that can only slowly be realized. Boeing has become virtually a one-product company whose one product is not currently paying its way.

Meanwhile, McDonnell Douglas and Lockheed are beginning to build their airbuses, expected to start going into service in 1971. Airbus prospects look very hot right now. As one United Air Lines vice president puts it: "We expect that our Douglas DC-10s will prove to be the sort of all-purpose planes that our 727s were in the past." Right now Lockheed and McDonnell Douglas between them have orders for nearly 400 airbuses; by 1980 airline men think there could be 800 or more in service, as opposed to less than half as many 747s.

Will It Ever Fly?

As if the threat of the airbuses were not trouble enough for one company, Boeing is in serious difficulties with Allen's other decision, the SST. Critics say Boeing was motivated mainly by pride in its decision to go all-out to win the SST contract. Certainly, with a prosperous commercial business balanced by smaller pieces of military business, Boeing did not need a big, long-lead-time, low-profit government program like the SST to survive. It was already deeply committed to the 747.

Boeing won the SST award from Lockheed on the last day of 1966. Since then, delays as a result of criticism both by congressional budget-cutters and by antinoise conservationists have put the U.S. SST five years behind the French-British Concorde and the Russian TU-144. Both of them are smaller and slower. But both are now flying, and the SST program still is not off the ground. A bill to provide \$290 million for two prototype models narrowly squeaked through the House of Representatives at the end of May. It faces even tougher going in the Senate. Airline executives and even President Nixon are cooling toward the



Turnabout. Four years ago James S. McDonnell wanted no part of commercial jets. Today his McDonnell Douglas is the leader in the field.

plane. In short, the SST program could be cancelled altogether. In that case Boeing might be reimbursed for its investment, but it can never be repaid for the five-year diversion from other projects caused by the SST, most notably the airbus. And even if the SST survives, any profits would be a long way down the pike.

So now McDonnell Douglas, in an ironic turnabout, has taken over as the most prosperous-looking aerospace company. It's a title, to be sure, that permits little chest-thumping in these days of inflation and dried-up military spending. McDonnell Douglas' revenues were also down last year, from \$3.6 billion to \$3 billion, chiefly because of a slowdown in deliveries of its very profitable F-4 Phantom fighter plane. Profits were up last year from \$3.30 per share to \$4.06, but will drop in 1970 as sales of Phantoms and DC-8s and DC-9s trail off. But it should remain in the black.

In a balance sheet way, Boeing and McDonnell Douglas are worlds apart. Both do roughly \$3 billion in volume. But Boeing's inventory load, at \$1.4 billion, is almost three times greater than McDonnell Douglas' \$586 million. Boeing carries almost \$700 million in long-term debt, vs. McDonnell Doug-

las' \$160 million, with another \$100 million in notes soon to be sold.

McDonnell Douglas' ascendancy derives from its balanced commercial and military market positions. McDonnell, with a timely infusion of money and production knowhow, made a remarkable recovery at Douglas. It helped that Douglas had planes the airlines liked: Its short-range DC-9s have outsold the Boeing 737s by 582 to 268 so far; the stretched-out DC-8s kept the money coming in while the DC-10 was being developed.

But the key to Douglas' recovery was the decision made by parent company President David S. Lewis and his boss, McDonnell Douglas founder and Chairman James S. McDonnell, to damn the torpedoes and build the airbus. They moved fast enough to offset a three-month headstart by Lockheed in 1967 and gobbled up the first big order, from American Airlines, early in 1968. Since then they have outstripped Lockheed in signing up airbus customers: McDonnell Douglas now has orders for 214 DC-10s; Lockheed has orders for 173 L-1011s. McDonnell Douglas moved decisively ahead when it successfully sold an extra-long-range version capable of flying over-water routes up to 5,000 miles. Lockheed does not have such a plane. This version of the DC-10 is directly competitive in the market where Boeing is selling its 747. But, being smaller, it can make money on fewer passengers than the 747.

The DC-10 is not yet a guaranteed big moneymaker. Prices for the airbus have been bid to the bone. But the airbus market is estimated at perhaps \$20 billion. If Lockheed should drop out—and airline sources report that feelers are going out to switch from the L-1011 to the DC-10—McDonnell Douglas could make a spectacular profit.

In another field, McDonnell Douglas beat competitors North American Rockwell and Fairchild-Hiller for the F-15 fighter contract last winter. McDonnell, on the strength of past performances on a long string of successful fighter plane contracts, must be rated a good chance of making the F-15 pay off with large profits.

At Boeing, Bill Allen, now 69, is scratching for money to keep Boeing liquid in these difficult days.

After he was beaten for governor of California in 1962, nobody gave Richard Nixon much chance of coming back. In 1966, when Douglas almost went under, nobody gave it much chance to catch Boeing again in commercial jets. Yet four years later, the roles are reversed. It goes to show that you can never tell in business, especially in the aerospace business. ■

Bouncing Back Fast

Motorola suffered two rather large blows, but it has proved to be a highly resilient outfit.

WHEN Dr. Lester Hogan, head of Motorola's semiconductor division, and seven of his lieutenants defected to competitor Fairchild Camera & Instrument late in 1968, there were all sorts of dire predictions about Motorola's future. Semiconductors were Motorola's fastest-growing business, and, at around \$200 million, ranked second in sales only to its TV sets and other consumer products. Who could survive that kind of blow?

The defection came at an awkward time, too. The year before, like other color TV setmakers, Motorola had been fooled by bullish projections that over 8 million sets would be sold in 1967; in fact only 5.2 million were sold. Caught with excess inventories and plant capacity, Motorola's sales skidded from \$682 million to \$630 million, its profits from \$2.70 to \$1.54 per share. At the time Hogan *et al* departed, the company was still cleaning up the wreckage.

By last year, however, Motorola was coming on again like gangbusters, setting sales and profit records of \$873 million and \$2.74 per share. That pace may be tough to hold in today's inflation-deflation economy—earnings were off slightly during 1970's first quarter. But the fact remains that Motorola has recovered very nicely from its setbacks of 1967 and 1968.

"We had indications that Hogan might leave," explains President Elmer H. Wavering, "and we anticipated he might take others with him. So when he actually did leave we had already moved men into key slots. This gave a lot of eager young guys the chance they had been looking for and they have responded beautifully."

But Motorola had more going for it than simply enough manpower to take up the slack. It already had a good enough start with integrated circuits to enable it last year to pass Texas Instruments in U.S. semiconductor sales (though TI still leads worldwide). It also had a large and often-overlooked communications equipment business—such as closed-circuit TV setups and two-way radios for police, taxis and truckers—that nets some 8 cents per sales dollar.

Motorola also took steps to shore up its television business. Previously it had concentrated on production. Chairman Robert W. Galvin, whose late father founded the company, and Wavering had felt that as long as they had the plant capacity to produce a large number of sets, the growth of



When the natives are restless, Motorola's communications business picks up. It is the market leader in police communications gear.

the market would take care of sales. When the sales curve crumbled in 1967, Motorola turned toward marketing. In 1968 it came out with the industry's first solid-state (no tubes) sets, promoted heavily under the Quasar brand name ("the set with the works in a drawer"). The company now schedules its production conservatively. Other TV setmakers have plans to convert to solid-state models, but so far Motorola has a clear lead.

Actually, however, Wavering downplays Motorola's television set busi-

ness. It now makes up less than 25% of the company's total sales, as compared with about 35% four years ago. He prefers to emphasize Motorola's diversity, not only in communications and semiconductors, but also in process control instrumentation and automotive products like car radios, stereo players and alternator systems. "People tend to think of us as a television set company," says 43-year-old executive vice president William J. Weisz, who later this year will become president when Elmer Wavering, 63, moves up to vice chairman. "The truth is that we are quite diversified in the electronics field."

First in the Field

As Weisz, who has been undergoing a grooming process for the top operating spot since last year, takes over more of the day-to-day management chores, Wavering will spend the bulk of his time on special projects that he hopes may blossom into substantial future businesses for Motorola. The most promising of these is the company's electronic video recording player business (*see p. 13*). Under an exclusive license that will expire at the end of 1971, Motorola is the sole manufacturer in the U.S. of all the EVR players designed by the Columbia Broadcasting System, the current leader in this new and very promising field.

But Motorola also is getting into the so-called "software" end of the business, where, says Wavering, "the really big money is to be made." That is, Motorola for the first time is preparing the prerecorded programs that will be played on its equipment. To force and control Motorola's growth in EVR, the business has been placed under the personal command of Elmer Wavering. "The decisions can be made a lot more quickly that way," he explains.

Are there no clouds in this rosy picture? Of course there are. In semiconductors, where pricing is vicious, disaster always lurks. Its television set business could suffer when the larger manufacturers like Zenith and RCA come out with fully solid-state models later this year. Then, too, there is the general economic slowdown in the face of swiftly rising prices and wages. Yet Motorola has bounced back very nicely from two rather large and simultaneous setbacks. It is hard to think of a better test to gauge the quality of a company's management. ■

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Like Moths To Flame

Burned in coins, some speculators are playing again with fire, this time in stamps

IF you think the stock market was running wild with speculation in 1968 and 1969, take a look at what's going on in postage stamp collecting. Nobody keeps any precise figures—which adds to the speculative fever—but according to various experts the prices of truly rare stamps have been rising year to year, without pause, at an annual rate of between 10% and 25%. What those figures mean is that prices have been going up somewhere between 150% and 800% every decade. Thus a \$10,000 stamp today could be expected to be worth somewhere between \$25,000 and \$90,000 by 1980 at current rates of increase. In 1960 it might well have gone for somewhere between \$100 and \$400.

Take the famous Honduras 1925 black airmail stamp, the only known copy in existence. It sold in 1957 for \$11,500, in 1961 for \$24,500, and is now available at Harmer, Rooke & Co., Inc. for \$55,000.

Obviously, that kind of increase can't go on forever. But right now the speculation seems to be going into full swing. Only last March a single stamp brought \$280,000 at auction. The stamp was a British Guiana 1856 1-cent magenta, and it's deemed valuable because it is the only one of its kind in the world and because it has a romantic history. The auction was conducted by New York City's Robert A. Siegel Auction Galleries, Inc.

Where Errors Pay Off

The Guiana stamp was not the most expensive single item ever sold in the stamp world. That honor belongs to an 1850 cover (envelope), containing two of the famous Mauritius 1-penny stamps, both with printing errors.

Like the Guiana, the Mauritius cover also is the only one known in the world and has a romantic history. It was discovered in 1897 in an Indian bazaar by a British railway employee. He paid 50 rupees for it, a lot of money considering an Englishman could then live comfortably in India on 400 rupees a month. But not as much as the £1,600 he sold it for. Two years ago it was sold by H.R. Harmer for \$380,000 to a stamp dealer who certainly hopes to resell it.

The British Guiana was purchased by one of the private investment groups that have been formed in the last few years to buy high-priced

stamps. Typically they consist of business and professional men with one member a stamp authority. One of the three largest stamp auctioneers is planning to offer an advisory program this fall for investment groups. With this kind of expanding investor activity, there is no doubt that speculation will flourish as new money presses against a supply that cannot be increased.

Already these groups are drawing criticism from some professional stamp collectors. Bernard D. Harmer, president of H.R. Harmer, a leading New York dealer, says that they are "unfair to the true philatelist who is investing for the enjoyment of it." In the end, he warns, when rare stamp prices are inflated by speculation, the true philatelist will decide to do without. And, he emphasizes it is the collector, not the speculator, who determines prices.

Meanwhile, as in any boom, a good many gullible and greedy people will be taken in. Consider the case of a top executive of a multibillion-dollar sales corporation, who spent over \$50,000 to develop a new stamp collection only to find that all but \$5,000 to \$10,000 had been virtually worthless frauds. But even the investor who avoids this may find himself a babe in the woods.

Big Difference

There was, for example, a recent New York auction at which two copies of a 1-cent 1901 Pan-American issue stamp with inverted center were sold. The stamp is famous and its catalogue value was \$3,000 each. One fetched \$3,200 and the other \$1,500. Why? The first was correctly centered and much more desirable to true philatelists. But an amateur could hardly have told the difference.

The stamp catalogue values are "like par in golf," says Andrew Levitt, vice president of Robert A. Siegel. The finest stamps will exceed it and the fine ones achieve it, he says. But the great bulk will fall below it.

Finally, the would-be speculator often forgets that commissions are very high in the business. Selling at public auction generally costs 20% of the sales price. Thus, with a \$1,000 stamp that rose in value to \$1,500, the investor would get a profit of only \$200 while the auctioneer would get \$300, the lion's share of the profits.

Does this sound similar to the now-collapsed coin boom of the early Sixties? Then prices of some not-so-rare coins doubled and redoubled within a few years' time, only to fall with a crash when the end-of-the-line speculator found there was no one left to sell to. In many ways, the two are similar. After all, the game is at least as old as Holland's tulipomania of the 17th century. ■

Rockwell Report

by Clark Daugherty, President

ROCKWELL MANUFACTURING COMPANY



A company was dissolved last month in Pittsburgh. It paid its shareholders 125% return on their investment in just five months of existence. It had a unique product and excellent market acceptance and penetration, with sales 40% over forecast — and production cost 10% under budget.

So what went wrong? Nothing: the dissolution was planned last November when the company was formed. In fact, 104 other companies were dissolved at the same time, on the same basis: they were all Pittsburgh Junior Achievement firms.

Last year, Junior Achievement marked its fiftieth year. In that time, millions of teen-agers have participated in the educational experience of establishing "for-profit" businesses under JA guidance.

Rockwell has sponsored JA companies for years, and our supervisors who serve as counselors always find the experience fascinating. Watching cool kids turn into involved entrepreneurs is its own reward.

If your company isn't involved in JA, we recommend it. It's one of the best means of business-youth communications we've got today.



▲ **New slant on water conservation.** Our Flexible Pipe Tool Division has developed a new water reclamation unit for its Hi-Velocity sewer cleaning machine. The unit reclaims water from the sewer line, and processes it for re-use in the sewer cleaning operation. For municipalities with continuing sewer maintenance programs, this can mean a substantial annual savings in time and in the amount and cost of water used.

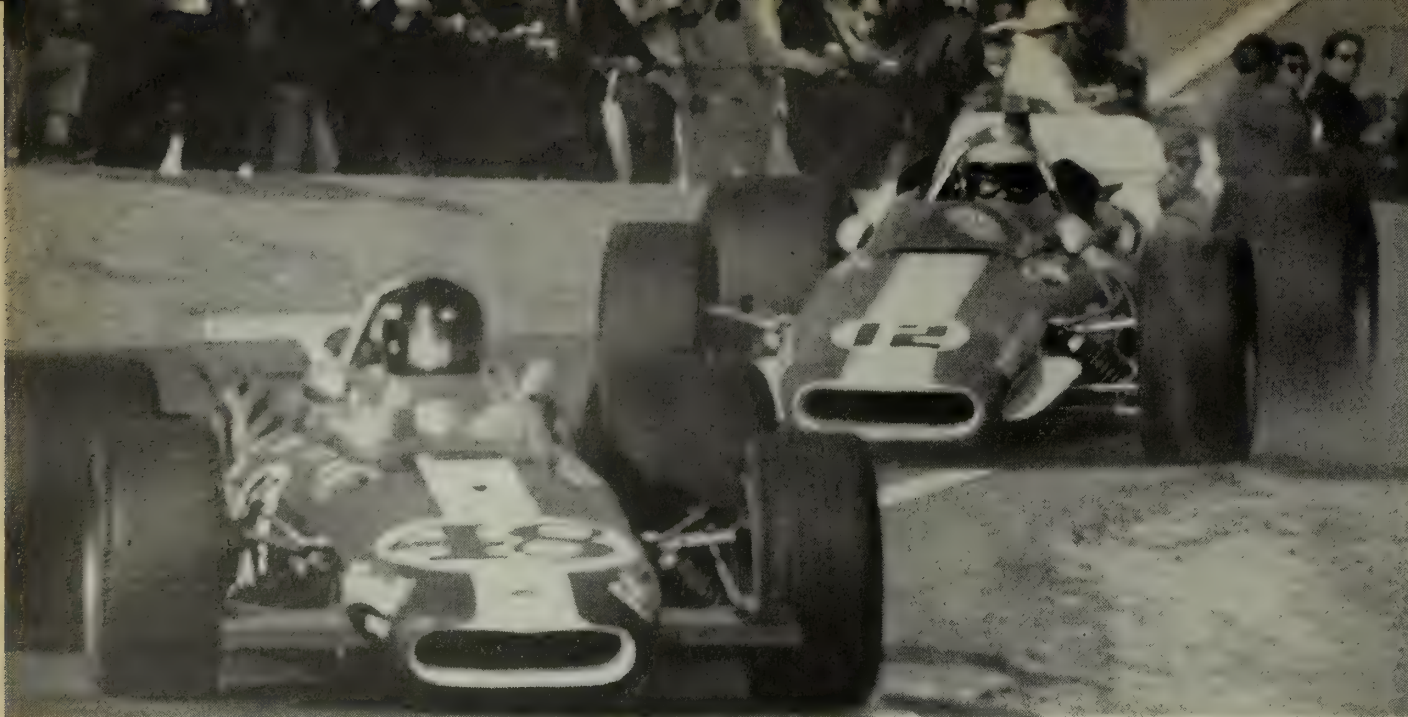
Crude meters. When crude oil comes from the well and passes through a meter, it's full of sand, salt water and other contaminants. Since the oil is also supposed to act as the meter's lubricant, it doesn't take too long for moving parts to wear out. We now have a BiRotor meter that solves the problem. It has its own self-contained lubricating system that's completely sealed off from the flow of crude. The system not only adds considerably more life to BiRotors handling abrasive products but takes the wear and tear out of metering non-lubricating dry liquids as well.

Twin twins. We've just introduced two twin cylinder Rockwell-Jlo engines for the man who likes to look under the hood before he buys a snowmobile. One twin is rated at 24 h.p., displaces 339 cc and packs all its power into a mere 62 pounds. The other has the same light weight with a little more getup and go — 28 h.p. and 398 cc. Both are more compact than other engines in their horsepower range. And both twins have the smooth-running performance that means easy riding and complete control on the trail.

This is one of a series of informal reports on Rockwell Manufacturing Company, Pittsburgh, Pa., makers of measurement and control devices, instruments, and power tools for 28 basic markets.



Rockwell
MANUFACTURING COMPANY



Auto Racing: Another Pro Football?

Its promoters say the racing business could become as big a moneymaker as pro football. But right now it's far from it.

AUTO RACING is a big sport. With 60 million paid attendance last year, auto racing remains the nation's No. One spectator sport, well ahead of professional football. (This excludes special cases like horse racing, which lures gambling spectators.) It's still a long way from first place in dollar volume, but it's growing. Counting approximately \$200 million spent by manufacturers (like Ford and Goodyear) and nonautomotive advertisers (like Coca-Cola and Mattel), probably \$500 million flowed through the sport last year. In addition, millions more are being spent on new speedways that can nearly match baseball and football stadiums for size and comfort.

And racing has already produced its own Joe Namath, diminutive Italian-born Mario Andretti, who earned \$900,000 last year to become the nation's highest paid athlete.

It's no wonder, then, that optimistic racing executives say their sport is where football was 20 years ago. And, goes their argument, once racing goes on TV its revenues and profits will soar as did football's.

It's a tempting vision. But how real is another question. Auto and tire companies don't really care about making money directly from racing. For them it is more an advertising medium than a market. The specialty equipment makers are too small to

cash in in any significant way. And there are no teams as there are in baseball and football.

The potential moneymakers are the speedways. And right now, despite the increasing attendance and revenues, speedways are having a rough time even making ends meet.

For example, American Raceways Inc. of Detroit, which controls four major tracks, lost \$1.2 million last year. Its 48%-owned Riverside (Calif.) raceway has never shown a profit in nine years. The Sears Point (Calif.) International Raceway, owned by Filmways Inc. of Beverly Hills, lost \$300,000 in one year of sporadic operation, then folded last May. Inter-

How Does Indy Do It?

THE CHURCHILL DOWNS of auto racing is Indianapolis Speedway, where the Indianapolis 500 has been run almost every Memorial Day for the past 59 years. It's only a "rectangular" track built with 3.2 million bricks, but it has such fame and prestige that each May the Speedway attracts the world's best racing drivers and overflow crowds for a month of testing and qualifying that culminates in a single race. Though exact figures aren't disclosed, from this single operation the Indianapolis Motor Speedway Corp. nets profits unequaled in auto racing.

How can they do it on one race

a year? It's a chicken-and-egg situation. The huge crowds mean a huge purse (\$1 million this year), which attracts big-name drivers. And because these drivers are powerful drawing cards, they in turn attract the huge crowds. This year 750,000 people paid some \$6 million during May to watch the warm-up sessions, qualifying trials and the finals; attendance came to a staggering 275,000 people on race day alone.

But other reasons are less obvious. First, the speedway for 25 years has been headed by an experienced businessman, Anton Hulman of Terre Haute, who runs Hul-

man & Co., a major regional food wholesaler, and has other extensive business interests. Second, the corporation owns the speedway free and clear; it pays no mortgage interest or rent. Third, the freeway system around Indy can handle the immense crowd that the 500 attracts, a much underrated factor in Indy's success. Lastly, the track's year-round maintenance crew—a big expense for any speedway—is self-supporting. How does that happen? During the rest of the year, when not cleaning or painting the speedway itself, the maintenance crew tends the public golf course lying in the center of the track.

national Speedway Corp., owners of the Daytona (Fla.) speedway, eked out earnings of 6 cents a share. The only major moneymaker was famed and unique Indianapolis Speedway (see box).

Why? There are all kinds of problems. If it rains, races must be called off. The drivers have great drawing power but can cancel out at the last minute. Old speedways are too small to support major events, while the new ones carry enormous overhead. (The yearly debt service at the \$30-million Ontario Motor speedway in California is about \$2 million.) And management skills are thin; most speedway executives are essentially racing buffs, while the few professional managers in the field have little experience with the sport.

Power, Not Profits

Perhaps the biggest problem is that there are four major and several minor sanctioning groups, with conflicting and overlapping interests. Some sanction road racing, others stock-car racing, still others drag racing. They fight among themselves, and if a speedway holds events sanctioned by one group, it often has difficulty getting events from other groups. Says one speedway manager: "They are virtually at trench warfare with each other, dying for their little place in the sun. Not so much for profits as for power." Childish? Sure, and wasteful, too.

It seems inevitable that these groups will have to consolidate, just as the pro football leagues did. It will be forced on them by television. Alone, the networks can play the groups off against one another in contract negotiations. Together, they can stand up to the power of the networks.

Already, NASCAR (National Association for Stock Car Auto Racing) has signed a \$1.3-million three-year contract with ABC; USAC (U.S. Auto Club) has agreements with ABC and Television Sports, Inc. worth possibly \$1 million over the next several years. This is peanuts compared with football's \$40 million in annual TV revenues. But the big dollars are there. It's just a matter of perfecting the coverage techniques. (One idea: running a special camera car in the race itself.)

This is still only a possibility. But a real enough one to keep alive the speedway managers' vision. After all, they dream, if auto racing can draw more paying spectators than football, it should be able to earn more money as well. Maybe. But for now the best investment in the sport seems to be a \$25 ticket to the upcoming California 500 race. ■

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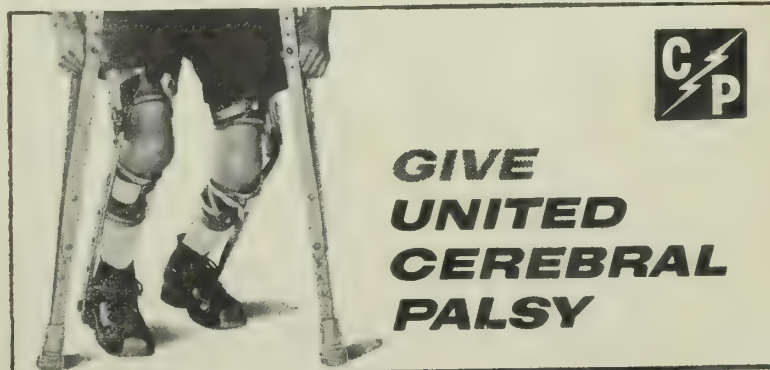
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**GIVE
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Uncontented Carnation

Despite family control and nepotism, once-sleepy Carnation Co. of Los Angeles has become very sharp, very tough and very profitable. Will it go back to sleep if Everett Olson retires next year?

LONG FAMOUS for contented cows, evaporated milk and complacent management, Carnation Co. has become a thriving billion-dollar growth company whose earnings increases and profitability shame most of its competitors. This is remarkable in itself, but more remarkable is that Carnation has grown and prospered at all. It is a family-controlled company long dominated by a single aging autocrat, 82-year-old Chairman Elbridge Hadley Stuart Sr., son of a founder and a family patriarch, who controls 51% of Carnation's stock.

Indeed, only nine years ago heir apparent E.H. Stuart Jr. angrily quit the company, charging that his father, then 73, was choking Carnation's growth with a one-man rule of fear. Perhaps young Stuart should have been more patient. Two years later, in 1963, President A.M. Ghormley, who started as a Carnation herdsman in 1915, became vice chairman. The presidency, which Stuart Jr. had been in line for, went to Finance Vice President H. Everett Olson, a calm, rational, highly astute accountant who joined the company in 1931. After Ghormley died in January 1965 (at age 68), Olson took his place as executive committee chairman also.

Olson, working in the shadow of the elder Stuart, has gradually made his influence felt everywhere: in new products, in acquisitions, in overseas expansion, in vastly improved relations with grocers and—especially important—in the recruiting and training of young marketing men.

Olson's influence is most evident in Carnation's improved profitability. In 1962, on sales of \$437 million, Carnation's net margin was but 2.9%, its return on equity 11.5%, its per-share earnings \$1.69. Last year, on sales of \$964.4 million, Carnation's net margin was 4.1%, its return on equity was 17.3%, its per-share earnings were \$5.18. Today Carnation is not only one of the most profitable companies in the industry, but it is the fastest growing in profits (*see chart*).

Why? "We're just smarter managers than the others," Olson told FORBES after Carnation's annual meeting this spring. A frank answer, but hardly complete. Because of the elder Stuart's passion for secrecy, the company grants no press interviews, sees no security analysts. In fact, it retains its unlisted trading privileges on the American Stock Exchange so it doesn't have to issue quarterly reports.

Cows, Dogs, Cats and Cans

Though it has added more than half its sales and earnings since Olson became president, Carnation always has been a growing and moderately profitable, if unexciting, company. Founded in 1899, Carnation was the first company to successfully can evaporated milk on a large scale. Later, it integrated backward into fresh milk, then diversified into cereals and animal feed in 1929 (Albers), into dog and cat foods in the Thirties (Friskies) and, in the mid-Fifties, into frozen foods. It also began making its own cans from the very beginning,

and today ranks at least fifth in can output, supplying most of its own needs but selling nearly 40% of its can production.

But it was the success of evaporated milk that made Carnation a national marketer with plenty of muscle in the grocery store: As late as 1963 Carnation Evaporated Milk was the country's largest selling single branded canned food item. This success allowed Carnation to ignore at will the profits of grocers and wholesalers. "We disliked them cordially," says one New York supermarket buyer.

But, says the same buyer, "There has been a vast change in recent years." Grocers across the country surveyed by FORBES agree. Until the last three to five years, Carnation was a hard company to do business with. Now it is ranked among the best, perhaps to the very top.

The changes were simple enough. When Carnation cuts a price by, say, 50 cents a case during a promotion, it gives the grocer 50 cents a case credit for whatever stock he has on hand. It will also announce such promotions ahead of time, will stretch a cutoff date to coincide with a grocer's reordering cycle, will even ship a truckload at rail car rates when the first shipment is delayed by the railroads. Moreover, its salesmen are professional, well-informed and eager to set up displays in supermarkets. All these things help the grocer make money; so he likes to buy from Carnation. "When a company cooperates with us," says one, "we cooperate with them."

Such cooperation, which was unimportant when Carnation was essentially a milk company, became vital as it moved into new lines. When Carnation nationally introduced instant breakfast in 1965, it convinced skepti-

Mining Company without a Mine

It has been three years since Union Minière lost its huge copper mines to the Congolese—three quite profitable years.

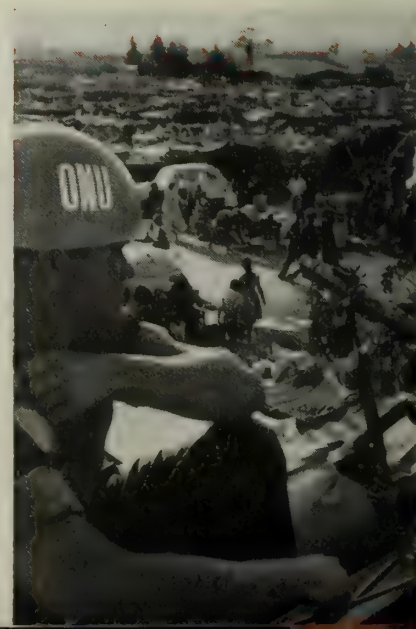
UNION MINIÈRE, once the world's third-largest copper producer, is a mining company in search of a mine. It has the money (including \$100 million cash), the technical skill, the political savvy and the marketing network. But ever since the Congolese government nationalized the mines and cancelled the mineral rights of the Union Minière du Haut-Katanga, this wealthy member of Belgium's Société Générale de Belgique (SGB) hasn't had a lode to call its own.

Does that mean Union Minière is in

trouble? Far from it. Union Minière is making more money now, in managing the mines it once owned, than it did when it controlled all the ore in the metals-rich Congo.

The Hard Way

It's unlikely, however, that anyone would have predicted it would turn out this way. When Belgium gave the Congo its independence in 1960, Moïse Tshombe wanted the Katanga province to secede from the new Congo nation and take Union Minière with



cal grocers to display the product in the breakfast food section. It was, of course, a big success. Likewise, Carnation got good display space for its Slender diet food, Buffet cat food and—just last year—for its Contadina Cookbook sauces.

Each of Carnation's five major consumer products—evaporated milk, cat food, instant breakfast, instant dry milk and Slender—is sales leader in its category. This success reflects the extremely well-balanced marketing machine that Carnation now is. In product development, packaging, sales, distribution and advertising, Carnation is at least as good as any and far better than most. (Sometimes, of course, such aggressive marketing runs into trouble; the Federal Trade Commission recently said it will charge Carnation with misleading advertising regarding instant breakfast. However, grocers report that the publicity hasn't hurt sales.)

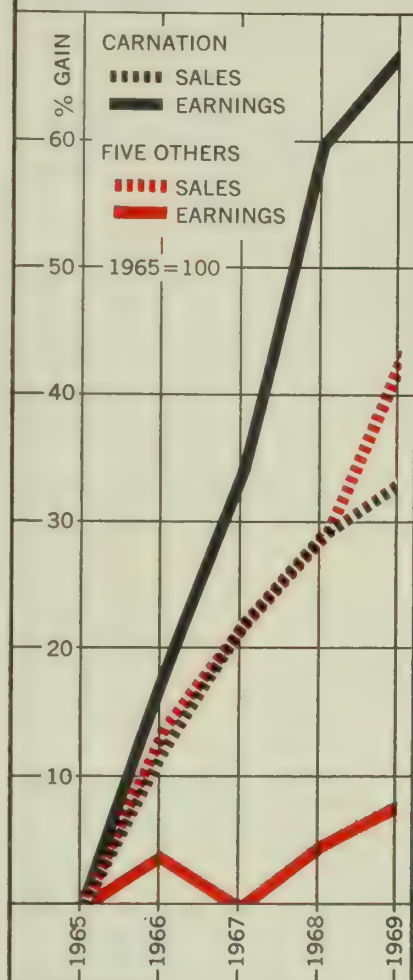
Buying Headway

Since Olson became president, Carnation has acquired Contadina, a leading canner of tomatoes and fruit; Trenton Foods, a Missouri canner of meat items; and Pet Inc.'s 35% interest in General Milk Co., which Carnation and Pet established in 1919 to sell their products overseas. With full ownership of General Milk, Carnation has moved rapidly to add new products and expand distribution in Europe, Africa and Asia.

Meanwhile, Carnation has improved its position in institutional foods with a revolutionary process that permits large-can packing of foods like sandwich spreads, which previously had to be packed in small cans that were both inconvenient and expensive. And it has recently taken this same process into the consumer market with a new

WINNING WHERE IT COUNTS

Over the last five years, Carnation's sales growth has lagged slightly behind that of its five major competitors—Beatrice Foods, Borden, Fairmont Foods, Kraftco and Pet. But where growth really counts, in earnings per share, Carnation has far outdistanced its rivals.



line of Spreadables sandwich fillings.

Naturally, Carnation has had its problems, but they have been relatively small. Some of the 120 new products introduced in the last ten years could only be called failures; a case in point was its Bodybuild diet supplement. The franchising of Icecreamland stores has been slow, and the company is losing interest in this venture. Certain foreign operations, like Brazil, have taken longer than expected to get into the black. And Carnation, like other companies, was hurt by the cyclamate ban, though it neatly offset the \$1.8-million cost by selling securities from its portfolio at a profit and consolidating some affiliates' incomes.

None of this has greatly hurt earnings, however. Indeed, as sales of low-profit evaporated and fresh milk decline as a portion of Carnation's total volume, its overall profitability should automatically increase.

Danger Ahead

The big problem lies down the road. Olson is now 64; the mandatory retirement age (except for Stuart) is 65. If Olson retires next year, a second Stuart son, Dwight L. Stuart, 46, is in line to replace him. (It's unlikely that E.H. Stuart Jr., who is now 53, would ever consider returning to the company. A third Stuart son, R. Fullerton, 51, was in charge of the money-losing frozen food division, which was sold in 1967; since then he has been a corporate assistant vice president with no specific area of responsibility.)

If Olson does retire, how well will Dwight handle the job? With the kind of success Carnation has had in recent years, it may be hard for Olson's successor to believe the company isn't infallible. But it will be very easy indeed for him to prove it. ■

him. At the time Union Minière provided about \$52 million annually, over 90% of Katanga's revenues and Katanga provided the Congo with 50% of the nation's total revenues. Fighting, with United Nations troops supporting the national government, eventually led to Tshombe negotiating peace in 1963. Union Minière saw its mines and minerals taken over and its revenues shut off.

But just because it had lost its mines, worth—it claimed—\$800 million, Union Minière did not give up. While the Congo government under President Mobutu was looking for new partners for its now-government-owned copper property, Union Minière warned that lawsuits awaited anyone who attempted to buy the output.

Further, the Congolese were denied access to the Union Minière refineries and marketing outlets in Belgium.

Compromise, face-saving and eventual grudging cooperation resulted in Union Minière's sister company, Société Générale des Minerais, handling the production operations for the Congo government, using Union Minière personnel and technology. This arrangement was ratified in 1969 into a 25-year agreement, with Union Minière's compensation linked to the level of copper production and world prices. This contract is worth at least \$20 million a year in revenues to Union Minière at present copper prices.

Meanwhile, Union Minière is looking for ways to put that money and its hard cash to work. While its geolo-

gists drill core samples in a dozen countries, Union Minière's top management lunches in a dozen capitals with potential partners. Both are searching: one for the copper deposits, the other for the right business deals.

"We have decided to remain a mining company, and not become a holding company," says Gerard Van Schendel, secretary to the board of directors. "Nonferrous metals—that's our specialty," he goes on. "We already are the third-largest exploration company in Canada."

Which is a long way from being the world's third-largest copper producer. But it also proves that there can be a great deal more to making money in the mining business than owning your own mine. ■

Faces Behind the Figures

Growth Is Where the Need Is

WHEN big companies "redeploy their capital," it usually means they get out of tired old businesses and use the money to move into exciting new ones. But here's mighty General Electric, which just sold its computer business, moving into the building of railroad cars.

If this particular bit of redeployment sounds funny these days, rest assured that the reasoning behind it is neither funny nor dumb. Bryce Wyman, head of GE's Transportation Systems division, is negotiating to buy the Budd Co.'s subway and commuter car business. GE and Wyman are convinced that mass transit—the moving of people through congested areas by more rational and less polluting means than private autos—is going to be big business. Of course, so are computers, but computers are highly competitive and International Business Machines has the business in



Wyman of General Electric

a pretty tight grip. Mass transit, by contrast, is almost an orphan. General Electric is convinced it won't remain an orphan and would like to be the IBM of mass transit.

Budd has been losing money building car shells at the same time as GE has been making money building electrical systems for them. Moreover, Budd's equipment hasn't always worked well—as witness the Metroliner's "bugs."

At the moment, Bryce Wyman's transit business is pretty small. It accounts for less than 1% of GE's revenues (\$8.4 billion last year). But with 36 to 38 cities in the market for transit systems and with those systems costing into the hundreds of millions of dollars (San Francisco's Bay Area Rapid Transit system alone is going to cost \$1.3 billion), the stakes are high. In the business, General Electric sees a chance simultaneously to serve a social need and to advance its own long-term growth. ■

The Market Is There

THE IDEA of making money in education is a dream that has become a nightmare for more than one big company in the last few years. Now James Parton, 57, president and founder of American Heritage, is going to try his hand at it.

Parton will leave his brainchild to head the Encyclopaedia Britannica Educational Corp., subsidiary of the privately owned \$200-million-sales (estimated) Encyclopaedia Britannica, the Chicago-based publisher. Like other optimists before him, Parton believes that corporations can turn out quality educational products—and make money doing it.

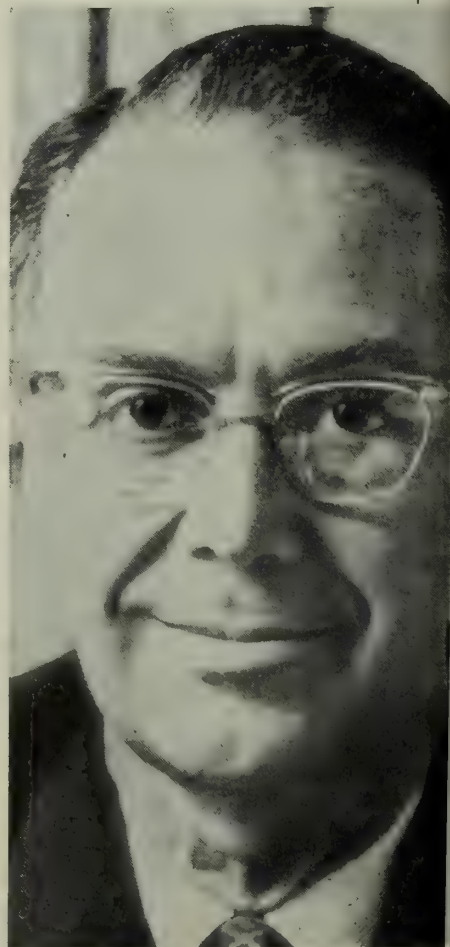
"Education can be stuffy and pedantic and is for the most part," says Parton. "All that is changing." One example is an American Heritage LP record of World War II speeches by Churchill, Chamberlain and Hitler, among others. Parton figures that the big companies will help him open up education: One avenue is the EVR market (see p. 13). "All the big companies are moving into home video players: Sony, CBS, RCA," he says. "We're not going into the hardware like those companies are. Britannica has the software."

If anyone does have the creden-

tials to make education interesting and relevant, it is Parton. Amidst dire predictions of failure he started *American Heritage* with \$64,000 in 1954. Within three years the hardcover, lavishly illustrated history magazine, which carries no advertising, was making a profit.

Aside from *American Heritage*, Parton published history and art books. When his attempts to buy G. & C. Merriam, publisher of Webster's New International and other dictionaries, failed, he sank \$5 million into the *American Heritage Dictionary of the English Language*. Last year McGraw-Hill bought the entire company for \$8 million, keeping Parton in charge.

In his new job Parton will report directly to William Benton, the owner of Encyclopaedia Britannica. Benton made a fortune in the advertising business (at Benton & Bowles) before he eventually bought Encyclopaedia Britannica from Sears, Roebuck in 1943. At that time it was only marginally profitable and Benton pledged support of his personal fortune to get it on its feet. Parton is counting on privately held Britannica, still backed by Benton, to really fuel the educational venture. "The universities can't handle all the applicants, the economics of it is against them. There must be new ways." ■

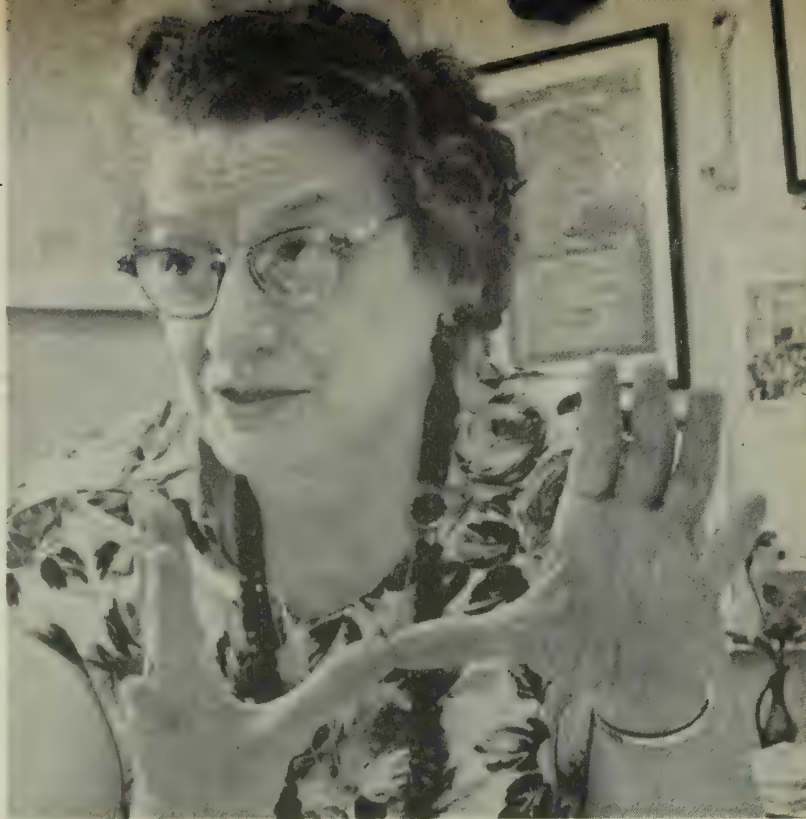


Parton of Encyclopaedia Britannica

Waste-Watcher

SIXTYISH Beatrice Aitchison looks like anybody's maiden aunt. But what an aunt! A Phi Beta Kappa and math Ph.D. with 30 years in government, Dr. Aitchison's job is combing the Post Office's \$618-million transportation budget, the world's largest, for ugly fat. In May her corporate waste-watching won her recognition as one of the top ten government workers of the year. The only woman in the group, she shared honors with moon-walker Neil A. Armstrong, with whom she also shares a government GS-16 supergrade that earns her \$31,857.

Aitchison's tiny, 12-man staff tackles the Post Office's biggest transportation suppliers, including the top U.S. airlines. They are still smarting from last year's encounter when her five-year study convinced the Civil Aeronautics Board to cut airline mail pay to \$188 million. The savings (or—if you're an airline—the loss): an estimated \$50 million. "The jet planes," she explains, "were more economical than the prop planes on whose operations the rates were based. If the 747 turns into a short-haul carrier, we'll take another look."



Aitchison of the Post Office

Her most compelling interest these days is Alaska. She has been trying to straighten out the rates paid for sending mail into the bush. Grocers are using parcel post to ship groceries by air on a space-available basis at \$3.40 per 70 pounds. "We have to pay the air

carrier \$22 for those 70 pounds," she says indignantly.

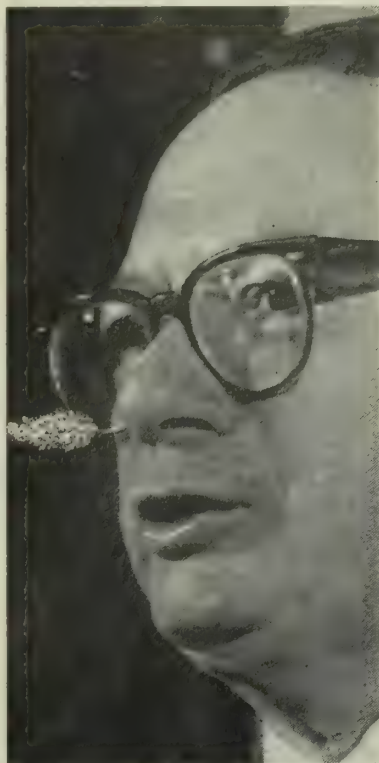
"It's fun," says Aitchison, an obvious example of an effective woman at a high level in Government. Does the stodgy Post Office need a women's lib movement? "Yes," she shot back. "And it's coming!" ■

Today's Hippie, Tomorrow's Matron

IF YOU'RE a businessman, forget about the teeny-bopper market, says Philip M. Hauser, director of the University of Chicago's Population Research Center. It's not long for this world. The big, emerging market, he says, consists of the young marrieds and, increasingly, the young middle-aged.

Hauser bases his prediction on this fact: The teeny-bopper market that so intrigued businessmen was a product of the post-World War II baby boom. Now those teeny-boppers are entering their 20s, getting married, having babies themselves. "During the 1960s," says Hauser, "there was a 42% population increase in the 15-to-19 age group and a 55% increase in the 20-to-24 group. That's going to drop in the 1970s. The 25-to-35 group is where the big bulge will come next." In other words, today's hippie will turn out to be tomorrow's matron.

Does this forecast another baby



Hauser of University of Chicago

boom like the one that occurred after World War II, between 1947 and 1957? Hauser thinks it does: "The birth rate turned up last year for the first time since 1957, the result of the 'echo' effect: the first postwar baby crop coming into reproductive age. The number of women who have the most children—that is, those 20 to 29 years of age—is increasing by 35% between 1968 and 1975."

Hauser won't predict how great the boom will be. Anyone who attempts to predict the birth rate is, he says, "either quite naïve or a charlatan."

But one thing he will predict: In spite of this country's population explosion, there still will be enough food and enough land for the next two or three decades, at least. New miracle strains of rice and wheat assure the coming generation of food, he says. As for the land, there is a "population implosion" along with the population explosion. People are leaving the rural areas to huddle together in the cities and in the suburbs. ■



Roberts of Woodstock Ventures

Best of Both Worlds

AT 25, John Roberts has already come close to losing \$1.8 million; has been attacked by his former business partners as greedy and materialistic; and has felt the hatred of a small community determined to throw him out. He could also be making his first million.

Roberts, an opinionated but likable heir to a cosmetics fortune, backed last summer's Woodstock music festival. Instead of the expected 100,000 people, 400,000 poured into the little Catskill town of Bethel, N.Y., choking the highways but also creating a legend.

Roberts got the Woodstock idea two years ago when Michael Lang and Artie Kornfeld, two hippie rock producers, suggested that he build a recording studio in Woodstock, N.Y. and stage a rock festival to launch it. "The time was ripe," Roberts says. "No festival had been promoted the way we promoted this one—you know, with peace and love and grass and trees and space, all of which are indigenous to the [youth] culture." It was a success,

but the success almost ruined Roberts. After the area was turned back to the cows, Roberts and his partners faced a mountain of lawsuits, bills and other claims totaling \$1.3 million. "By the end of the festival," says Roberts, "my partners were saying to hell with the money, we've done a beautiful thing." Roberts, who had put up the money, was seeking a more tangible return.

Isn't that a bit crass for one of today's supposedly idealistic younger generation? Roberts disagrees. "There's so much hypocrisy in this business," he says. "It's just socially and politically popular to appear anticapitalistic. If these kids knew what I know about their music idols—how most of them are so far into the capitalistic bag the kids say they despise—they would have torn them limb from limb.

"Frankly, I went into business and invested all my money so I could make more money. I also happen to enjoy doing it and feel it has a socially redeeming value."

At any rate, Roberts' old partners think he is too crass for them. Lang and Kornfeld have split off

and now accuse Roberts on TV of corrupting the Woodstock ideal. Undismayed, Roberts had formed Woodstock Ventures Co., which stands to make quite a bundle. It has already got \$1 million from Warner Bros., for 25% of its "Woodstock" film, which *Variety* listed last month as the sixth highest grossing film in the country. Ventures will get 10% of the net after the film grosses \$10 million, and also 2.7% of the gross on a Woodstock record album that grossed \$1 million in its first two weeks and may hit \$15 million by fall. Ventures has endorsed 150 products from T-shirts to beer mugs, drawing the line at bubblegum cards.

Eleven months older and many years wiser than when he put on the first festival, Roberts still tries shakily to bridge the two worlds: "I wasn't interested in my father's cosmetics business, because for me there wasn't enough socially redeeming value. I won't say that's why I started Woodstock, but if it hadn't had socially redeeming value I honestly don't think I would have been interested." ■

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Commerce private nonfarm housing starts)

Consumption

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

Income

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



Watching For A Trend

NO ONE should be surprised about the behavior of the stock market. The institutions, as well as the public, have had an unpleasant experience that has lasted a long time. Most everyone, except the incorrigible "stockniks," is disenchanted. Investors looking for income can do much better in the bond market where yields on fully taxable bonds are at least 2 percentage points higher than on the best yielding equities. Investors looking for growth cannot be enthusiastic when most so-called growth companies are earning less than a year ago, and when the broad economic trend is flat.

For the stock market to go dull and uninteresting after a bad break and a sharp rally is traditional. Sometimes these dull periods, with only an occasional few sessions of relief, have lasted six months, 12 months or more than a year. Furthermore, after such a severe break, we almost never go back into a really big speculative bull market for years. We do, of course, have an investment market and a market in which a few speculative stocks of exceptional merit do well.

Many people seem to think that the

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institutions will behave differently than the so-called public. Such reasoning overlooks the fact that most institutional managers are only human and influenced by exactly the same reasoning and environment as the general investor. Actually, in the recent violent snapback rally, the institutions were decidedly slower to buy than the jolly old public. There's no longer a shortage of stocks, nor is there any longer a plethora of cash in the hands of the funds, the banks and other big buyers. And the big aggregations of investment funds, moreover, can't overlook the possibility of getting 9% or so on riskless bonds.

Unlikely Change

In brokerage offices there seems to be the usual hope (it always comes at a time like this) that somehow or other President Nixon, Dr. Burns or someone else is about to pull a rabbit out of the hat and change the atmosphere overnight. That is unlikely to happen. Most of the things that can be done to stop business deterioration and restore confidence carry with them a delayed effectiveness. Assuming that the emphasis of Washington policy changed from restriction to

stimulation some time in May (as I suspect it did), not much tangible evidence of expected results is likely to appear before the fourth quarter. The only possible exception to this would be a response to unmistakable and convincing evidence of easier credit, and it is doubtful whether it is possible or advisable to ease credit enough to make the evidence "unmistakable" at an early date.

We know, it seems to me, that earnings for the June quarter were worse, in most cases, than earnings for the March quarter; and we should know that the showing for the September quarter will be worse than for the June quarter. The December quarter, I believe, will be a little better than the September quarter but not as good as December a year ago. Earnings on the DJI, I have been suggesting, will be about \$49 a share this year as against \$57.89 in 1969. I suspect that my \$49 estimate will prove a little too high.

But don't put the stock market down as a lost cause. If you are shopping for income-type stocks now, you can get almost twice as much income per \$1,000 as you could have obtained back in 1968, and most of the growth stocks are selling at anywhere from 10 cents to 50 cents on a dollar as against their bull-market peaks. Some of them, too, are just as good, or better, than they were when they were twice as high. Examples of this are McCulloch Oil (24) which is growing faster than ever, General Development (19), Sperry-Rand (27) and Cities Service (43).

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has brought a stock in in the past 18
months now has a paper loss, there is
much more emphasis in most people's
minds on safety than on adventure.
That explains why the stocks usually
described as "defensive" have de-
clined less than most, or actually have
advanced a bit. The defensive stocks
are the drugs, the cosmetics, the to-
baccos (especially) and the utilities. I
don't think the banks should be re-
garded as defensive as some other
groups because there is so much lev-
erage in bank stocks.

A number of letters have come to
me from *FORBES* subscribers who are
retired and who want to know what
to do. Some of these people, of course,
bought stocks as a hedge against in-
flation, and of late the hedge has
hedged in the wrong direction. They
are puzzled as to what to do now.

Of course there's no doubt that a
higher current income can be ob-
tained in bonds than in stocks; and it
is my opinion that the net apprecia-
tion in most common stock portfolios
over the next year or so won't be out-
standing. I don't like to give answers
in this column on a mass basis. What
would be good advice to one retired
person would not be good advice for
another in different circumstances. I
do think that this is no time for retired
people to put money into speculative
stocks or into growth stocks.

The equities which qualify best for
retired people are the standard invest-
ment stocks like *Standard Oil of New
Jersey*, *Gulf Oil*, *General Motors* and
some of the better quality *electric
utilities*. Many of the more conserva-
tive *mutual funds* qualify too; but re-
tired people should avoid the new
"performance" oriented funds.

Why do I make special mention of
Cities Service, which lately has been
around 43? Earnings this year should
be \$4.40 a share or better with cash
flow perhaps \$9 or \$10 a share. The
company has a large interest in *At-
lantic Richfield* common (around 52),
about 0.11 shares of Atlantic Rich-
field for each common share of Cities
Service. Common capital was reduced
about 11.5% through an exchange of
CS shares for ARC's. The company's
fertilizer flavor is marked, and the fer-
tilizer business is improving. The stock
is down from a high of 80 last year
and pays \$2.20 a year.

Indeed, it seems to me that some
of the very best investment values
now available are in the quality oils,
the shares of the larger oil companies.
Continental Oil (23), paying \$1.50, is
expected to earn \$2.90 to \$3 a share
this year; *Mobil Oil* (45), paying
\$2.40, carries an earnings estimate of
\$4.60; *Standard Oil of California*
(41), paying \$2.80, should earn \$4.45

or so; *Standard Oil of New Jersey*
(54), paying \$3.75, is one of the
world's largest companies, is splendid-
ly diversified and is expected to earn
\$5.75; *Gulf Oil* (24), paying \$1.50,
should earn \$3; and *Union Oil of Cali-
fornia* (25), paying \$1.60, carries an
earnings estimate of \$3.

Every one of these quality equities
carries a price/earnings ratio of less
than 10 times and offers a generous
dividend return. None of these com-
panies is going out of business, and
none is dependent on a single geo-
graphical area for either production or
markets. Furthermore, every one of
these companies is "an institution"
rather than a mere "venture," and that
is important.

I am not recommending the pur-
chase of many *electronic* issues right
now because I don't trust the earnings
estimates of most of them, and be-
cause I don't see any good reason to
buy most of them, even at as little as
10 times earnings. In most cases, the
plus element is lacking; and there are
minus elements in many of them be-
cause of less government procure-
ment, lack of earnings growth, or pre-
viously padded earnings due to now
questioned accounting practices. This
is an investment area that was crude-
ly overexploited.

Avoid Conglomerates

Some of the *conglomerate* stocks
had a nice rise in the snapback from
May's market collapse. I don't like to
follow strength in this group. In many
cases it will be necessary to sell off
some of the best assets at deflated
prices in order to meet pressing debts.
At the time of the boom we were told
that two and two could make eight.
Perhaps now the parts will be worth
more than the whole; but the trouble
here is funny-money preferred stocks
and bonds ahead of the common and
complicated capitalizations.

Dart Industries (29) may be more
interesting than most fast-growth
stocks, partly because so much of the
company's business is consumer-ori-
ented. Among the company's assets is
1.5 million shares of *Minnesota Mining*,
worth more than \$6 a share at recent
prices. Direct selling (Tupperware,
Vanda Beauty Products, West Bend,
etc.) items last year contributed 36%
of sales and 48% of pretax income.
Net this year is being estimated in the
\$2.20-a-share range. This is a sizable
company with sales at around \$700
million even after eliminating Rexall.

Don't expect too much of the stock
market this summer. Volume is quite
sure to be restricted, and investors are
still cautious. There is no assurance
that the May lows in the DJI may not
be tested again before autumn. ■

TECHNICIAN'S PERSPECTIVE

By John W. Schulz



Base-Building Problems

IN THE WAKE of the brief but extraordinarily powerful rally from the May panic lows, most observers seemed to agree that it will be a long time before investors recover confidence in common stocks.

To the technical analyst, the process whereby confidence is restored is known as "building a base." Major bases from which bull markets emerge usually take months to build. Broadly speaking, they unfold as the major averages trace out a relatively wide trading range, which includes the final bear-market low.

No two such bases in the past have been exactly alike. In some instances, the final bear-market low was established early in the base-building process. This seems to be the pattern after exceptionally violent and deep price collapses, such as those of 1946, 1957 and 1962. Following an initial recovery, the real bear-market low is tested more or less closely, sometimes violated briefly by a modest margin and without convincing selling pressure. The rally-and-test sequence may have to recur more than once, until investors finally are persuaded that the bear market is over and begin to look at the brighter aspects of current and prospective developments.

A Secondary Low

Some bear markets—those of 1953, 1960 and 1966, for example—ended with relatively brief and marginal declines to new lows that could be characterized as "false" moves. In those instances, investor confidence apparently had begun to revive before, and continued to grow after, the last, not too traumatic, downswing. As a result, the final bear-market lows of those years were posted near the midpoint of the base periods and were never closely tested again. Much of the base building had been done in the late stage of the respective bear markets, and new bull markets could emerge with comparative ease.

The shock and extent of the April-May price collapse from Dow 800 to 628 have placed the market in a situation that is probably more like the 1946, 1957 and 1962 cases than the others cited above. If so, by far most

of the base building is still to be done, including at least one test of the May lows, possibly a "secondary" low—under reduced selling pressure—not too far under Dow 628. However, as this is being written, I suspect that the very first test can be successful, if only because the initial bounce of nearly 100 Dow points provided enough scope for immediate get-me-off-the-hook liquidation to exhaust itself above the May lows. On the other hand, I can't see any persuasive reason now why the market should rise beyond Dow 720-740 at any time soon, so the best I can visualize for the intermediate term are trading swings across much or most of a 100-Dow-point range. The process should provide us with clues to whether a major base can indeed unfold in, roughly, the 630-740 range.

Meanwhile, one technical reason for thinking that a lot of base work would still have to be done to support a new bull market stems from the fact that round-lot investors, as a group, were net sellers of stock on the New York Stock Exchange on relatively few occasions during the long decline since December 1968. For the period as a whole, they bought more stock than they sold. No doubt, this reflects mainly the continuing net purchases by institutional investors. A similar trend was apparent throughout the 1962 bear market. After the year's final low had been posted, the mutual funds rebuilt liquidity by selling stock on balance for three months, thereby prolonging and reinforcing a new major stock-market base, which they then helped complete by aggressive net buying toward year's end.

In the 1966 bear market, on the other hand, round-lot investors were net sellers most of the way down, with the mutual funds liquidating more stock than they bought in the final three months of the decline. All this net selling before the bear-market low presumably established such a radically oversold technical condition in the market at large that even the pressure of year-end tax selling failed to produce a close test of the final bear-market low. Despite this year's April-May panic selling, no comparably favorable technical situation can be recognized now. ■

Mr. Schulz is a partner in the New York Stock Exchange firm of Abraham & Co.

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STOCK ANALYSIS

By Heinz H. Biel



Reappraisal

HARDLY anyone had high expectations for 1970 at the beginning of the year. The economy had begun to show signs of slipping; inflation was still accelerating; a restrictive monetary policy was keeping credit very tight and interest rates were at peak levels. It was the consensus that the first half of the year would be pretty bad with business activity declining, unemployment rising and corporate profits shrinking. While the word "recession" was being used frequently to describe the outlook, most people thought in terms of a mini-recession, a temporary dip, a cooling-off, a slowdown which might last a few months. The low point was to be reached by mid-year with progressive improvement in the second half, and after that resumption of growth and prosperity.

Are these expectations still valid today? I doubt it. Nothing has gone right this year, and in all respects the situation is considerably worse than had been anticipated.

The recession, so far, is not of major proportion, but as it progresses some serious weaknesses which had not been anticipated become apparent. We knew that profits would be lower, but the drop in corporate earnings is surprisingly great. As sales volume levels off or even declines, while costs, especially for labor, are still rising, the profit squeeze will intensify. Instead of the hoped-for improvement in the second half, beginning in the third quarter, we now must project further deterioration of earnings.

Far more serious, however, is the evidence of financial difficulties of some major corporations. It came as a shock to learn that the asset-rich Penn Central had suffered such frightful losses that it was no longer credit worthy and had to appeal for government assistance in order to meet its payroll and other obligations.

While Ling-Temco's troubles were neither unexpected nor undeserved, the desperate financial position of Lockheed, one of the foremost aerospace companies, makes one wonder who else is in a similar predicament. A major airline, maybe? These problems are not confined to industrial or transportation companies. General Public

Mr. Biel is a partner in the New York Stock Exchange firm of Emanuel, Decetjen & Co.

Utilities, with a candor rare among managements of public utilities, stated openly that it does not know how to raise the vast sums required for urgently needed generating equipment. How safe is its \$1.60 dividend rate?

The Minor Evil

If major corporations find it difficult to maintain adequate liquidity for the daily conduct of their affairs, one can visualize the problems of smaller businesses whose survival is not important enough for Uncle Sam to come to the rescue. The Federal Reserve has realized that the risk of corporate illiquidity threatens to assume crisis proportions. Accordingly, it is now increasing the money supply at a rate which would have been considered outrageously inflationary just a few months ago. At the moment, however, it is of paramount importance to provide the banks with adequate loanable funds to prevent too many wheels from coming to a halt. (Realists, or cynics, if you will, have been saying that when it comes to a showdown we will accept inflation as the minor evil rather than risk a serious slump.)

Even if the banking system can avert large-scale corporate liquidity problems, as I expect, it is difficult to visualize a significant upturn in business activity during the next few months. Projections of capital expenditures are being lowered as corporations are cutting back on such outlays, either because they now believe it untimely and imprudent to expand, or simply because the necessary funds are unavailable or too expensive.

Consumer spending will be held down by the rise in unemployment as well as the all-pervading effect of the stock market crash. Furthermore, unless our monetary authorities are completely blind, they should restrict consumer credit in order to offset the inflationary effects of the increase in the money supply necessitated by the threat of a liquidity crisis. Banks, apparently, still prefer to grant vacation loans to individuals at 18% than to give urgently needed credit to a struggling businessman at 12%. Just to give an idea of the magnitude of consumer credit: Sears' receivables now stand at \$3.6 billion, or 40% of sales!

Are there no hopeful signs at all? I

believe that the one and most important reason for some degree of optimism is the apparent fact that President Nixon has become more fully aware of the close interrelationship between Vietnam, social and political tensions, business conditions and the stock market. The key, obviously, is Vietnam, which must be de-escalated and terminated at almost any price if we are to avoid major calamities at home. Nixon knew that when he was campaigning for the presidency two years ago. Is it possible that he has forgotten this? Or has he, like his predecessors, been taken in by the persuasive powers of the generals whose one-sided views and unwarranted confidence in our military prowess has led us deeper and deeper into a hopeless quagmire?

Don't Jump the Gun

Although the market has given intermittent signs of life, the main ingredient for a sustained advance, namely confidence in the future, is still lacking. If we take a very long-range view, stocks are cheap, but cheap, like value, is a relative concept. *American Tel & Tel*, down over 45% from its years-ago high, *seems* most reasonable at 10 times earnings and yielding 6¼%; but the 9.5% yield on highest-quality bonds is 50% greater! Some 20 years ago, when the pre-split Telephone was paying its perennial \$9 dividend, the stock was yielding much more than twice as much as good bonds. Seen in its historic perspective, AT&T is not as cheap as it appears.

In the 1960s, investors paid high prices for stocks because equities were presumed to be good inflation hedges. They have learned that this is only partially true, and that the hedge function becomes a complete illusion when the authorities make a determined effort to curb inflation. Except for continuing lip service, these efforts, one-sided and ineffectual as they have been, are now being relaxed, if not suspended altogether. This may prove to be a plus factor for the market which could offset the negative factors of declining earnings and a generally dismal business outlook.

Wall Street's mood is usually at its lowest ebb when stock prices are scraping bottom. The mood could hardly be gloomier than it is right now. Quite possibly this bear market will bottom out this summer, but don't take this for granted and jump the gun. The investor's main task should be to upgrade the quality of his holdings. In such difficult times, investments should be confined to firms with a capable management, a conservative capital structure, solid financial strength and predictable earnings. ■

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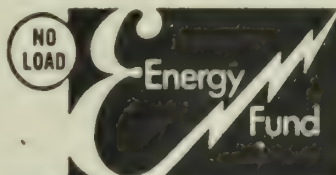
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OVERSEAS COMMENTARY

By George J. Henry



Natural-Resource Stocks

DURING the last days of May and the beginning of June we had what was undoubtedly the most convincing six-day rally since the market started its decline more than 18 months ago. The financial community breathed a huge sigh of relief, one which reverberated in financial centers all over the world.

Many markets abroad were adversely affected by the continuous decline in our market—aside from any fundamental difficulties in their own countries. In my column on the first of January I mentioned that, in my opinion, Japan and Australia offered the greatest potential for investors during the next decade. The action of these markets for the following two months or so was extremely strong, in spite of developments elsewhere. Bernie Cornfeld, the controversial head of I.O.S., at a meeting of institutional investors in New York in February, voiced similar sentiments. And thereby hangs a tale.

When markets decline and when a monetary squeeze is in effect, people in need of cash will sell anything that is readily marketable to raise funds. Thus some distress selling in the U.S. of Australian and Japanese stocks has taken place for some time. Until recently, this selling could be absorbed. However, when our markets tumbled in April and early May, and when the unloading of stocks became a major factor in all markets, I.O.S. must also have sold in the Australian and Japanese markets, causing further havoc. The inherent values, however, remain unchanged. Thus this may offer a good opportunity to bargain hunters with spare cash (and patience) to make profitable purchases.

One cannot cease to wonder at the discoveries of natural resources in Australia during the last decade. And exciting discoveries are continuing to be made in all kinds of minerals. A few weeks ago old favorites of this column, Santos and Delhi, discovered through a farm-out what is undoubtedly a very exciting new gas field rich in liquids—just how rich will have to wait for tests and additional drilling. While it's too early to say, original announcements in Australia by the drillers (not Santos or Delhi) did mention oil. Should oil be present, this group will unquestionably have added something even more profitable

to their present productive gas fields.

Broken Hill Proprietary still remains a very interesting way of participating in the country's general growth. Its primary business of iron and steel is bound to be affected by any increase in construction, and its huge oil and gas discoveries of recent years are beginning to add to profits. The potentials in other minerals are impressive.

Investigate Further

In the mining field I would like to mention two companies which demand further investigation from any readers who may be interested. I find mining companies, in view of the fluctuation in the price of most mining products, extremely difficult to evaluate. By far the best course is to mention some names with some of their possibilities to allow interested investors to dig further for information on them.

Western Mining was formed about 40 years ago for gold exploration. It has had success in this field in the past, but in the last decade or so attracted wide attention as Australia's first discoverer of valuable nickel deposits. It is already a large producer of nickel, and is expanding its facilities. It has a 20% interest in Alcoa's Australian aluminum ventures. With other partners, it is interested in other mining ventures, including talc and iron ore, to mention two. This company is one of the heavyweights of the Australian market—there are 70 million shares outstanding—and the stock enjoys a good market in Australia and London. The market in New York is not too well developed, but there is never any difficulty in trading in the stock. American-owned shares are around 14, vs. 20 a few months ago.

The other mining concern, *VAM Ltd.*, is smaller than *Western Mining*. American activity in this stock has been strong enough to justify the issuance of ADRs. This stock is currently available at around 2%. Its interests range from oil and gas exploration to copper and gold. It has recently had very rich discoveries in those metals, and is a large producer of antimony. It is prospecting for nickel. Management is very aggressive, and so far has had a good degree of success. Substantial earnings should start coming in in the very near future. ■

WALL STREET VIEW

By Charles Rolo



Growth Is Not Dead

It's **HARD** to be brave these days but the fact remains: This year's brutal market shakeout has created an opportunity to buy established growth stocks without paying inordinately high multiples.

In the strong markets of the 1960s, growth stocks—and I don't mean simply the highfliers—generally commanded forbidding price/earnings ratios. To be specific, the 150 stocks listed in "America's Fastest Growing Companies" (a monthly survey published by John H. Herold Inc.) periodically had an average P/E ratio of 40 or more. Last October, when the bear market was in its tenth month, the average P/E ratio of the AFGC list was still a very high 32. But in April and May of this year, even the growth stocks with healthy earnings took a considerable tumble. The market price of the AFGC list was recently down 33% from its bull market high and the average P/E ratio was 20.

The record shows that the sounder growth issues have invariably snapped back after major market declines and have gone on to make new highs. So it seems to me that now is the time for growth-minded investors to prepare their shopping list and to set buying targets for the periods of weakness which, in all probability, still lie ahead. (It's hard to see a bull market taking shape until there's concrete evidence of improvement in the dismal economic and monetary picture.)

Yes, I know the problems. Few people were astute enough to pull out of the market when the going was good and stubbornly remain in cash. Most investors are sitting on sizable losses. Thus, any new commitments involve agonizing switch decisions. There's no easy answer to this dilemma, but you must face it. You must bite the bullet. If you wait for a recovery in holdings which look inordinately depressed, you risk missing out on what is probably a rare buying opportunity in the growth sectors.

In previous columns, I have frequently questioned the view that the so-called cult of growth is dead. I've cited a variety of reasons for believing that the case is stronger than ever for investing in companies which appear

to offer consistent and above-average growth. (These companies, with some notable exceptions, are not to be found within the labor intensive industries, whose profitability is being relentlessly eroded by rising labor costs.) In short, my theme has been that in the long run, a return to the old-time investment philosophy, to the blue-chip investment vehicles of an earlier era, is not likely to pay off. I realize that many analysts disagree with me. They think that growth is dead. I think it is very much alive and that this is an opportune time to do some painful cutting of losses and hunt for bargains in the growth stock area.

My map of these areas includes computers and office equipment; high technology companies with a sound balance sheet and proven marketing ability; life insurance, banking and other service industries; cosmetics;

CATV (speculative); drugs and hospital supplies; growth companies within the housing industry; pollution control; soft drinks and brewing; strong, well-managed companies in the broad field of recreation and leisure activities (*not* the little fad stocks); specialty companies with an outstanding growth record such as an *Avery Products*, a *Lubrizol*, or a *Tampax*; the faster growing utilities; and a few companies with outstanding management in the retail field.

In the accompanying table is a list of stocks which are among my current candidates for inclusion in growth-oriented portfolios. Please note that some unexpected adverse development could knock stocks off the list before this column is in print or thereafter. Let me stress, too, that these are not "buy at the market" recommendations, but rather a possible shopping list, on which investors should set their own buying targets. The market is still likely to have sinking spells, and stocks with relatively high multiples are currently out of favor; so bargain hunters in the growth sectors stand a good chance of making good buys. After all, we've only just crept out of the Valley of Despond and there's no sign that the Garden of Delights is just around the corner. ■

Shopping List for Growth Stocks

	Bull		Earnings Per Share 1970E	Per Share 1969	Price/Earnings Ratios 1965-1969		
	Recent Price	Mkt. High			E1970 Av.	High	Av. Low
Alexander & Alexander	42 bid	59	\$1.80	\$1.40	23	37*	19*
American Air Filter ¹	47	65	2.10	1.80	22	24	15
American Research & Devel.	59	100	NA	NA	NA	NA	NA
Avon Products	73	92	1.80	1.47	40	55	37
Bristol Myers	52	84	2.50	2.23	21	39	27
Chesebrough-Pond's	41	55	1.90	1.73	22	30	20
Eastman Kodak	63	87	2.70	2.49	23	35	26
Florida Power	42	54	3.05	2.91	14	23	16
Holiday Inns	24	47	1.30	1.15	18	34	18
IBM	256	387	9.25	8.21	28	46	32
Lubrizol	52	69	2.10	1.79	25	29	18
Mammoth Mart ²	18	25	1.40	1.25	13	15	8
Mohawk Data Sciences ³	30	111	1.55	1.15	19	77*	52*
Morgan (J.P.) & Co.	59	70	4.90	4.57	12	15	14
National Bank of Detroit	41	53	6.00	5.66	7	14	10
National Cash Register	50	86	2.30	2.06	22	35	21
PepsiCo Inc.	45	57	2.50	2.33	20	24	16
Revlon	54	74	2.65	2.33	20	24	16
Rochester Telephone	36	44	2.50	2.26	14	22	16
Schering	53	63	2.00	1.71	26	30	19
Schlumberger	58	111	4.40	4.00	13	21	13
Tampax	173	228	6.00	5.34	29	39	29
USLife Holding	27	81	2.40**	2.17**	11	24	14
Warner Lambert	64	76	2.70	2.39	24	29	20
Xerox	75	116	2.40	2.08	31	67	39

1-Year ending Oct. 31. 2-Year ending Jan. 31, 1970-71. 3-Year ending July 31. NA—Not Available. *1969 Range. ** Adjusted.

A guest columnist, Mr. Rolo is co-director of the Research Dept. of the NYSE firm of H. Mertz & Co.

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At a meeting of the Board of Directors held today a dividend of One Dollar and Sixty Cents per share on the Ordinary Capital Stock was declared in respect of the year 1970, of which Eighty Cents per share is the proceeds of a dividend from Canadian Pacific Investments Limited, payable in Canadian funds on July 22, 1970, to Shareholders of record as at the close of business on June 22, 1970.

By order of the Board.

T. F. TURNER,
Secretary.

Montreal, June 8, 1970.



STOCK TRENDS

By Martin T. Sosnoff



The Cowardly Lions Shall Inherit The Big Board

In a single guest column for *FORBES* last Aug. 15 ("Requiem For Performancemeniks"), Martin T. Sosnoff predicted this year's market crash and the end of the Performance Cult. With the DJI down 120 points since then, he tells what he sees ahead. Mr. Sosnoff is a general partner of Atalanta Partners, New York.

IT WOULD BE a mistake to think the Big Board is no longer the gambling casino it was a year ago. No sooner does the market rally for a week than last year's seedy merchandise is marked up. Stock groups with dismal fundamentals suddenly move obscenely as thousands of beady-eyed tape watchers play a short-squeezing game or rationalize themselves into action with a look-over-the-valley thesis.

The irrationality of stock-price movements is all the more mystifying in view of the hemorrhaging most money managers have experienced. For the market has buried our performancemeniks. The number of portfolio managers without portfolios is rising alarmingly. Mutual funds are running scared for the first time in years. They have shed their cloaks of many speculative colors and donned a mantle of sober responsibility that adumbrates long-term rate of return, balance-sheet values and all the other catch phrases that were fashionable in the Fifties among the investment fraternity.

I am convinced that Nixon personally rallied this market by coaxing the billion-dollar money managers to commit some of their reserves. The message probably percolated through that the Administration really cared. The charade of Bunny Lasker going to the Capitol should not be repeated. If there is a second trip, the market will not rally. The stock exchange boys will walk into Nixon's office on their knees and plead for all the wrong things, like a bullish statement on the economy and interest rates.

The market went down because it became uncompetitive with itself, as well as with alternative investment sectors. Its uncompetitiveness is a function of the built-in overspeculation that has kept anything remotely resembling a growth stock at a multiple of five to ten times book value

and an overvaluation of earnings power that leaves no room for disappointment. The disappointments have come. Money managers are now pulling out annual reports and are appalled by what they see.

In industry after industry, balance sheet strength has been dissipated by accelerating capital expenditures financed by short- and long-term debt. The rate of return on incremental spending has been terrible and the deterioration of profit margins since 1965 is obvious to anyone who will look, even for General Motors. It is a sobering thing to realize that GM's operating margins have been in almost a steady downtrend for most of the Sixties. AT&T is only the first of the multibillion-dollar industrials that has "hungry" written all over its balance sheet and cash flow charts.

The stock market is in danger of becoming unfashionable. Its tacky descent has been quickened by too many corporation presidents believing those divisional discount cash flow studies on new investment. They desperately tried to justify the price of their stocks with excessive capital spending to create the rate of return on capital that would satisfy the institutional holders of their issues that they are holding dynamic equity paper.

No Money for Stocks

The small investor is going to be sought out by his local broker to participate in the people's capitalism of the Seventies. But the people are wise up. Money is going elsewhere. The small investor is running to his local savings bank. Individuals are finding out what government bonds are all about, and in the corporate sector they are accounting for at least half the action on new issues. Mortgage and real estate trusts are going begging with a 10% return. It is easier to be seduced by 9% coupons on a Triple A rated bond than to watch your GM make new lows.

The new investment fashion is not overspeculation after all, but a more legitimate appraisal made by individuals and institutions alike as to their rate of return expectations. The new portfolio sound will be a consistent return on capital with negligible finan-

cial risk. The practice of the mutual fund industry remaining 93% invested in the greatest bear market in recent history will be shattered, finally. Institutions will learn to swing with cash; that even being 50% invested can be a bloody experience.

So you still don't understand why your IBM and American Telephone act like ragamuffins? It's because everyone who should own IBM or Telephone already owns too much. They ain't buying anymore. In fact, they are only looking for an excuse to sell some. Maybe the company is too big and the growth rate could decelerate sharply. Maybe the rate of return on non-equity investments is higher. Maybe the rate of telephone installations is going to slow down.

A New Love

Reciprocal thinking suggests that money managers are going to crawl out of their technological harems and fall in love with net tangible asset coverage situations rather than capitalized goodwill. The reaction to the end of the super growth game is the beginning of the not-so-super growth game. The scaling down of portfolio expectations is a response to the tired blood syndrome among many growth stocks of the early Sixties that now have too many shares outstanding and a declining rate of return on equity.

But don't be misled too soon. Maybe the reciprocal of the stock market is the bond market and that's where we should all go for a while. Then, when all the institutional money that should have been going into the bond market in the past year or two finally goes there, the stock market will become attractive again. All the billion-dollar heavyweights—the banks, pension funds, the insurance companies and the mutual funds—must first begin to comprehend that the bond market has to improve before the stock market can change direction on a sustainable basis. This is the way the bear market ends.

When the big boys who doubled their turnover ratios in the past few years finally realize they are really not good enough to play the performance game, when they cut back their turnover ratios substantially, you will know it is time to play again. By then, the painful disgorgement of equities will have run its course. Everyone will have sold enough to be comfortably mediocre. We will all look back on the superstars of the Sixties who contorted their portfolios with delicious nonsense with the same nostalgia that we view a Charlie Chaplin flick.

Somebody, please tell me the good news. When does the next show start? ■



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...or what the cash earnings per share may average for the period 3 to 5 years from now?

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The Funds

What Is It?

AMERICAN Research & Development Corp. of Boston has been described by many, including *FORBES*, as the "most successful venture capital firm on record." It is. But during the last few months its stockholders found that ARD was more of a mutual fund.

Since it was started in 1946 by General Georges Doriot, a 72-year-old, French-born former Harvard Business School lecturer, ARD has had quite a few venture capital successes, far more than the average for outfits in this risky business (*FORBES*, June 15). By all odds, its most spectacular investment was the start-up money it supplied in 1957 to a manufacturer of small computers called Digital Equipment Corp. Nine years later, after Digital Equipment had built its revenues to \$23 million, its net income to \$2 million and its earnings per share to 24 cents, ARD took the

company public at \$7.33 a share. Proceeds: \$18.25 million *vs.* ARD's original investment of \$61,400. It was a venture capitalist's dream come true, a 135-to-1 payoff.

But Doriot was unwilling to stop there: Why should he, with a great bull market just beginning? ARD held on to just under half of DEC's shares, some 4.7 million of them. As the bull market picked up speed, DEC's shares rose to 12 in 1966, 52 in 1967, 60 in 1968 and 103 in 1969. By this past February they were up to 124, making ARD's holdings worth over \$580 million on paper. ARD's total net asset value, just \$47 million when DEC went public, soared to almost \$700 million. The price of its common stock on the Big Board shot up from a low of 5 in 1966 to 124 early this year.

Why did investors bid up ARD's stock? Because of its widely heralded skill as a venture capital operator? Because they anticipated (incorrectly so far) that ARD planned to cash in its DEC profits and use them in its avowed business of bankrolling new enterprises? Or because ARD was doing what all go-go-fund men would love to do but wouldn't dare—concentrate its assets on a very hot stock?

By keeping some 96% of its assets in listed stocks (mostly DEC but also shares of Teledyne, Textron, Litton, Kearney-National, A-T-O and Crowell Collier received in exchange for companies it originally backed), ARD has become more a closed-end mutual fund than a venture capital firm. During the last few months it has regretted it. Almost every mutual fund has taken a bath, but ARD more than most because of its concentration in a single stock. Since February DEC's shares tumbled from 124 to a low of 57, and recently sold around 69. Suddenly ARD's \$580 million worth of DEC shrank to \$268 million. Its net asset value was cut nearly in half, and its own shares fell from 100 to 43.

None of this makes ARD any less skillful an operator with the tiny percentage of its assets it still devotes to venture capital investments. It is still among the very best in an increasingly crowded field. But ARD is not the same company it was. It no longer is as much a venture capital firm as it is a rather risky mutual fund.

Back in Style

"IN THE FIRST HALF of fiscal 1969, we were doing 1.5% of the mutual fund business; for the first six months of this year the figure was 4.2%," says John C. Bogle, president of Philadelphia's Wellington Management Co. "In the month of April it was up to 5.25%. Our market share has improved for eight months in a row."

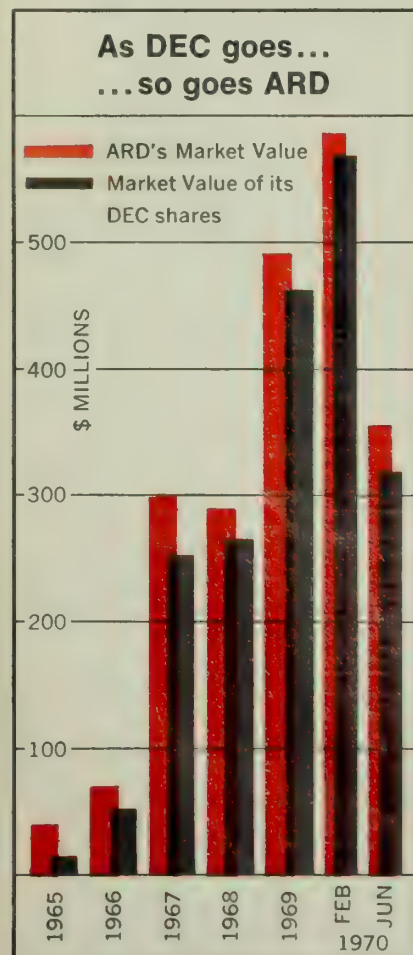
Very nice. And very significant. Until recently, Wellington's sales picture was rather bleak. It had a conservative image and go-go was in vogue. From July 1968 through August 1969, Wellington redeemed more in its seven public funds than it sold. But now go-go is out and conservative Wellington is in. Through May—the first seven months of Wellington's fiscal year—sales were up by 59% to \$112 million, while redemptions were down by 39% to \$89 million. The biggest gainer was Wellington's Windsor Fund, a diversified common stock fund.

Losing Less

Not that Wellington is beating the law of gravity this year, but it is not being clobbered like many funds. "Our average fund was off about 5% in calendar 1969; the industry was off about 15%," says Bogle. "This year our funds are all beating their groups by about three percentage points."

Of course, Bogle has diversified Wellington so that it has something that's likely to sell in any kind of a stock market. Just four years ago Wellington was pretty much treading water with two funds—the \$1.5-billion Wellington Fund, with 30% to 35% of its assets in bonds, and Windsor Fund, a smart but conservative growth fund.

Capitalizing on the market fads of the time, Bogle brought out a dual fund (Gemini), three Exeter exchange funds and acquired Thorndike, Doran, Paine & Lewis, managers of Ivest Fund, one of the earliest of the go-gos. "Three or four months after the Ivest merger," he says, "we sensed there might be a good market for a fund emphasizing small companies." Thus, Explorer Fund. Bogle quickly followed those up with W.L. Morgan Growth Fund, originally designed to allow Wellington Fund



'stockholders to switch into something more modern (it was later opened to the public); Trustees' Equity Fund, for tax-exempt organizations, and Technivest Fund which invests on the basis of technical factors.

Had it not been for these funds, Wellington would have been in even worse shape in the go-go era. When Ivest was acquired in 1967, Wellington Fund sales were in decline. But Ivest was hot then and Wellington Management's sales doubled in the two years after the deal. But when Ivest had its comeuppance—it fell 3% in the strong market year of 1968—Bogle's other new funds helped take up some of the slack.

In the current bear market, the company's sales star is old Windsor. Its emphasis on value (*FORBES*, Apr. 1) has sales appeal now that investors have sworn off speculative funds. (Windsor has performed well recently despite being nearly fully invested—about 40% of its money is in utilities and financial

companies.) So far this fiscal year, Windsor accounted for 56% of sales, vs. a combined 39% for Ivest-Morgan-Trustees-Explorer and only 5% for Wellington Fund.

New Blood

But Bogle is not one to write off funds that run into sales problems. Nearly two years ago, for instance, both Wellington Fund and Ivest got new managers. "In 1967 and 1968, Wellington Fund moved a little bit away from its conservative philosophy," says Bogle. "The portfolio manager of Ivest Fund, Bob Doran, had become our senior investment executive and he couldn't do both jobs." Now Wellington Fund and Ivest are back on the right track again, at least in relative performance.

Bogle is well aware, of course, that a good record one year is useless the following year. "We realize," he says, "that to beat somebody by going down 17% when the market is down 23% is good relative performance, but that sooner or

later you have to have good absolute performance."

Aiming at that goal, Bogle continues to bring out new merchandise. The latest is Wellesley Income Fund. "It's going to be a true income fund," he says. "Most income funds are usually at least half in common stocks and as a result yield only about 5% or 5.5%. Initially, Wellesley will invest virtually entirely in bonds; you're getting 9% kind of rates today on bonds. If interest rates go down and stock yields up, it may well become a stock fund."

Others in the industry have been toying with similar ideas, but wonder if a bond fund will sell. Bogle is not without his doubts. "There are no numbers that tell you how much you can sell of a bond fund. We know that bond funds as a group are not selling well. You've got to go out and try." After all, it was *trying* that enabled Wellington to survive the go-go era to the point where it could make a solid comeback. ■

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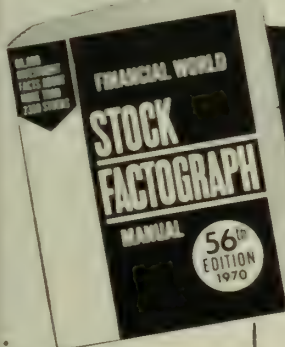
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consecutive dividend



6 Cents a Share
Payable June 26, 1970
Record Date June 8, 1970

65 BROADWAY, NEW YORK, N. Y. 10006

BROAD STREET INVESTING CORPORATION

A UNION SERVICE FUND

162nd

consecutive quarterly dividend



10 Cents a Share
Payable June 26, 1970
Record Date June 8, 1970

65 BROADWAY, NEW YORK, N. Y. 10006

READERS SAY

(Continued from page 9)

Sopwith Camel. Am I right?

I never flew a Camel, or any fighter aircraft, but rather mostly De Havillands, FE 2Bs, RE 8s etc., and so am depending on a 55-year-old memory of what a Camel looked like head on.

—JAMES K. MACNEILL
Wakefield, Mass.

The plane is a World War I Sopwith Pup, photographed at Cole Palen's World War I Museum at Rhinebeck, N.Y.—Ed.

Controls on Wages—and Hair?

SIR: Regarding the arguments for and against wage and price controls, and your conclusion (*Fact & Comment, June 1*), quote: "Hmm. ????" By my analysis, the answer comes out: "Pfittttt # @ + *!."

With regard to the "Hairy Incident" on the same page—if you could persuade Mike Butler to give you a job in the cast of one of the *Hair* road companies, I don't know what it would do for the theater, but sure as hell it would improve FORBES magazine.

—CHARLES P. HAGAN
San Diego, Calif.

SIR: When I learned that you permit your son to support a beard, this in itself is reason enough to let my FORBES subscription expire.

—WALTER C. DEACON
Easthampton, Mass.

Let someone 21 do something? Where are you at?—MSF.

SIR: ... "Hairy Anecdote" is priceless. While I have not accepted either the long hair or the play, *Hair*, I am sending this article to the president of our Wichita State University, presently suffering some severe attacks because *Hair* is booked into their auditorium. Incidentally, I have known Paul Butler a good many years. He used to be one of our star Beechcraft distributors.

—OLIVE A. BEECH
Chairman,
Beech Aircraft Corp.
Wichita, Kan.

Sir: Hairy Anecdote—Great!

—J. PAUL AUSTIN
President,
The Coca-Cola Co.
New York, N.Y.

SIR: Our business managers—those credited with being the smartest among us all—have made no really positive move to bell this inflation cat. Yet consider the effect if (led by FORBES' example?) a number of them were to make well-publicized across-the-board percentage reductions in their own incomes as a calculated blow at soggy dollars.

—JOS W. LUCAS
Cocoa Beach, Fla.

I agree with your point more than with your suggested example!—MSF.

The cure for cancer. If you put up the money, we'll put up the brains.

The people and the tools it will take to find the cure for cancer are going to cost a lot of money. More money than dimes and dollar bills can provide.

It's going to take substantial contributions to do the job. From people who are in a position to give us the kind of help we need.

And that, gentlemen, is why we're talking to you about it.

American Cancer Society

Fight cancer with a checkup and a check.

FORBES

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THOUGHTS... ON THE BUSINESS OF LIFE

There is a kind of revolution of so general a character that it changes the tastes as well as the fortunes of the world.

—LA ROCHEFOUCAULD

No nation deserves freedom or can long retain it which does not win it for itself. Revolutions must be made by the people and for the people.

—JOSEPH MAZZINI

There is one thing better than good government, and that is government in which all the people have a part.

—WALTER HINES

There is bound to be a certain amount of trouble running any country. If you are president the trouble happens to you but if you are a tyrant you can arrange things so that most of the trouble happens to other people.

—DON MARQUIS

Left-wingers are incapable of conspiring because they're all egomaniacs.

—NORMAN MAILER

We are not forced into unpleasant activities. We either allow them to come about or we encourage them to come about.

—WILLIAM SAROYAN

Anyone who proposes to do good must not expect people to roll stones out of his way, but must accept his lot calmly if they even roll a few more on it. A strength which becomes clearer and stronger through experiences of such obstacles is the only strength that can conquer them. Resistance is only a waste of strength.

—ALBERT SCHWEITZER

I want to caution that we must not confuse patriotism with blind endorsement of bad policies.

—MARK O. HATFIELD

One ought never to allow a disorder to take place in order to avoid war, for war is not thereby avoided, but only deferred to your disadvantage.

—NICCOLÒ MACHIAVELLI

For peace, with justice and honor, is the fairest and most profitable of possessions, but with disgrace and shameful cowardice, it is the most infamous and harmful of all.

—POLYBIUS

B. C. FORBES

At the base and birth of every great business organization was an enthusiast, a man consumed with earnestness of purpose, with confidence in his powers, with faith in the worthwhile-ness of his endeavors. The original Henry Ford was the quintessence of enthusiasm. In the days of his difficulties and disappointments and discouragements, when he was wrestling with his balky motor engine—and wrestling likewise with poverty—only his inexhaustible enthusiasm saved him from defeat.

Democracy is the worst form of government except all others.

—WINSTON CHURCHILL

Enthusiasm is at the bottom of all progress. With it there is accomplishment. Without it there are only alibis.

—HENRY FORD

If ever there was a holy war, it was that which saved our liberties and gave us independence.

—THOMAS JEFFERSON

Liberty, too, must be limited in order to be possessed.

—EDMUND BURKE

We should not forget that our tradition is one of protest and revolt, and it is stultifying to celebrate the rebels of the past ... while we silence the rebels of the present.

—HENRY STEELE COMMAGER

What will it take to be classed as a radical 25 years from now?

—ARNOLD GLASOW

Without true Christian principles conservatism is a political philosophy of selfishness and liberalism is one of greed.

—THOMAS C. JEFFERY

Lincoln's reference to "government of the people, by the people, for the people" is a generally satisfactory definition of democracy. I say "generally" because when it comes to fair and workable details, democracy fails to completely meet the criteria enunciated by Lincoln by a rather wide margin.

—GEORGE AIKEN

Let our object be our country, our whole country and nothing but our country.

—DANIEL WEBSTER

A Text...

Sent in by Harry D. Cassell, Baltimore, Md. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Boast not thyself of tomorrow; for thou knowest not what a day may bring forth.

—PROVERBS 27:1

JULY 15, 1970 / SEVENTY-FIVE CENTS

FORBES

The Utilities

**Are They Losing
Their Spark?**



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Union Pacific serves more major West Coast ports than any other railroad. For your import/export shipments, U.P. will furnish container shipping information, help you with the paper work, port authorities, steamship lines. International Trade Representatives are strategically located throughout the U.S.A. Our representatives in Japan, Taiwan, Australia and New Zealand provide expert coverage of the Asiatic-Pacific area. Call your Union Pacific agent. He'll put you on the right track for better import/export connections.

For confidential plant site information in the Union Pacific West, write to John W. Godfrey, Chief Executive Officer, Land Division, Union Pacific, Omaha, Nebr. 68102.

One of the children in this class has epilepsy. Can you tell which one?



If you can't, don't feel stupid. Neither can the teacher.

Thousands of children grow up with illnesses and defects that could have been corrected, but weren't.

Not because nobody cares about them. But simply because no one notices.

Without special training, it's often impossible to tell a health problem from a discipline problem.

A fidgety child could be one with a nerve disorder.

A child who never seems to open his mouth without shouting could really be hard of hearing.

And what appears to be inattention could be petit mal, a mild form of epilepsy.

Since 1945, we at Metropolitan Life Insurance Company have been calling teachers' attention to important facts like these, in the belief that an "Unsatisfactory" in conduct is a poor substitute for medical attention.

To date, thousands of teachers, nurses, and parents have had the benefit of this information. Which means that millions of kids will.

Because the first step in solving any problem is recognizing that it exists.

For more information, write Dept. F50, 1 Madison Avenue, N.Y., N.Y. 10010.



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We sell life insurance.
But our business is life.



**Want to
eavesdrop
on fish?**

Never?

**Then what about
buying some
shower curtains,
hockey pucks or
anodized
aluminum?**

**See Firestone.
We make 44,000
things besides
tires.**

Because we make so many products at Firestone, we are asked to solve some unusual problems. Here one: The U.S. Navy has a fantastic research vessel that upends and buries its stern 330 feet below the surface of the water. Scientists listen to the sounds of the underwater world with super-sensitive equipment. To keep the sounds of operating machinery from interfering, Firestone designed an ingenious air suspension system.

One example of the 44,000 products—metals, plastics, textiles, chemicals and rubbers—that Firestone makes. It's a growing business—growing so rapidly, in fact, that it now accounts for a fourth of our profits.

There may well be something our diversified products people can do for you—whether it's an existing product or system or something new designed to your specific requirements.

See Firestone. We make products that are best today, still better tomorrow.

For more information, write: Firestone, Market Opportunities, Akron, Ohio 44317.

Firestone

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PHOTO AND ART CREDITS: Bettmann Archive, pages 9 and 46; United Press Int'l., pages 22, 24 and 56 top; Jonathan Siegel—Nancy Palmer, page 23; John Gajdi—DPI, page 25; Leviton-Atlanta, page 36; Art Shay, page 42; Ed Wergeles, page 55; Dick Hanley, page 56 bottom; Guy Gillette, page 57 bottom; Wide World Photos, page 58 top; Drawing by Joe Papin, page 31; Chart by Pete Di George, page 48.

COVER PHOTO: Fred De Van

FORBES is published twice monthly by Forbes, Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office, New York, and at additional mailing offices. Subscription \$3.50 one year U.S.A. Copyright © 1970 Forbes Inc.



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**We're all over
the world.**

**And you never even
heard of us.**

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Hong Kong. Japan. Mexico. Spain.

And you never heard of us.

We have a branch in London.
That branch alone is bigger than 99% of
American banks.

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and Istanbul.

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You have to do international business. It's just about the only frontier left.

Marine Midland can do any kind of international business you want to do.

And you never even heard of us. 

Marine Midland Banks. We're not famous. Just big.



A FULL
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BANK

The camel doesn't have to worry where his next drink is coming from

But in a few years, you could end up a little thirsty unless you're walking around with two humps on your back.

A fresh glass of water for drinking.

A fresh pool of water for swimming.

Or a fresh tub of water for washing.

No matter how you use it, there is less and less of it around every year.

But, as bad as it sounds, the fresh water problem isn't a new one for man.

That's partly because there isn't a large amount of fresh water to go around in the first place. (Something like 97.2 percent of the earth's water is in the oceans.)

Only a small amount makes up the earth's rivers, lakes and streams.

And, unfortunately, every place that needs fresh water isn't next door to a river or lake or stream.

So, poor man, like his friend the

camel, has had to store his fresh water throughout history.

But unlike the camel, man's storage tanks don't come naturally.

So we made a business out of designing and building water storage tanks for man.

While we worked, we learned, too.

What did we learn?

One thing.

No two men have the same water storage problem. Each

tank has to be a little wider.

Or a little shorter.

Or a little taller than the next one.

So, over the past 50 years we built our reputation on this one fact of human existence.

Now our men at the Plate and Welding division handle each new problem in a new way.

They'll work with your engineers or they'll do the whole job themselves.

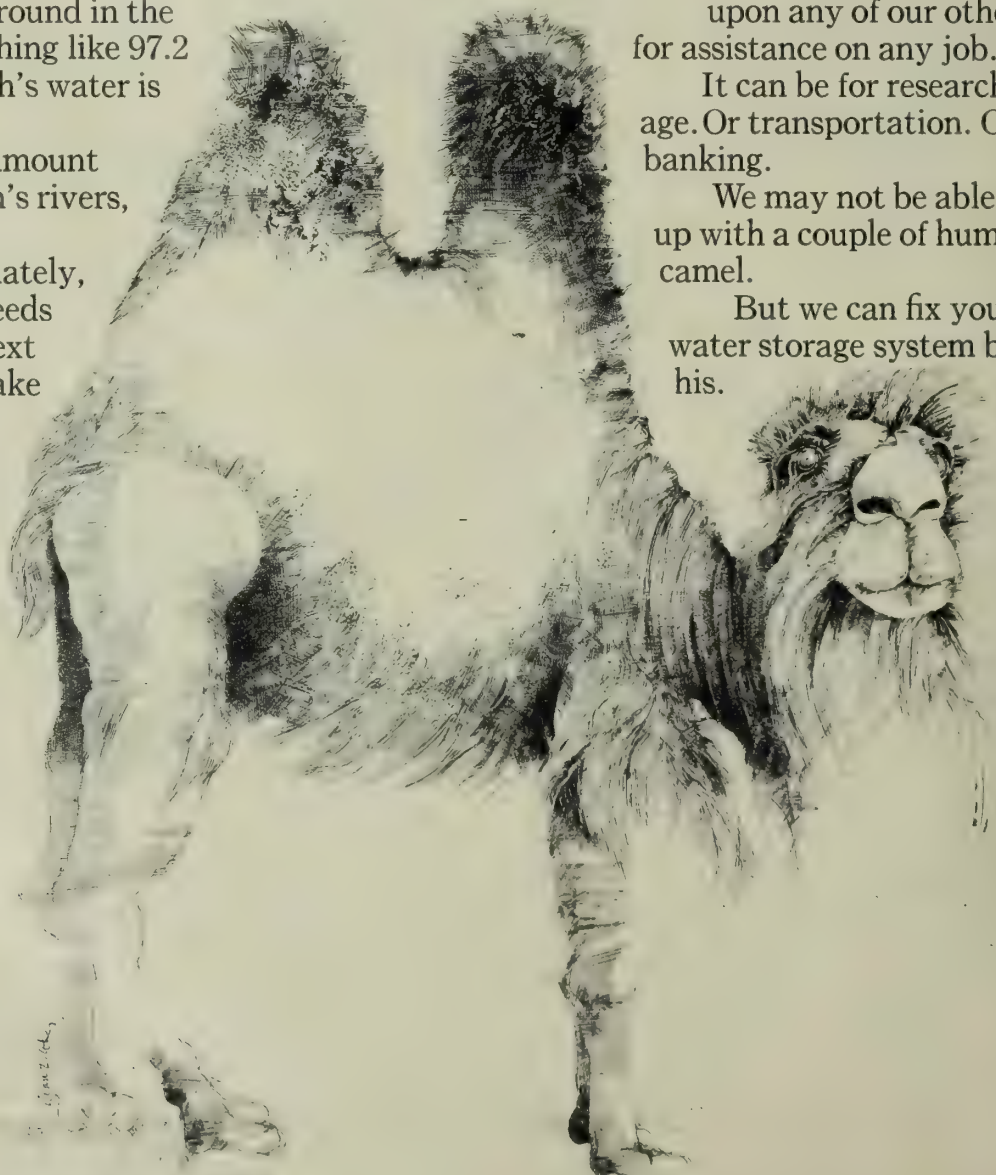
What's more, you can call upon any of our other divisions for assistance on any job.

It can be for research. Or storage. Or transportation. Or, even banking.

We may not be able to fix you up with a couple of humps like the camel.

But we can fix you up with a water storage system better than his.

GATX



FORBES

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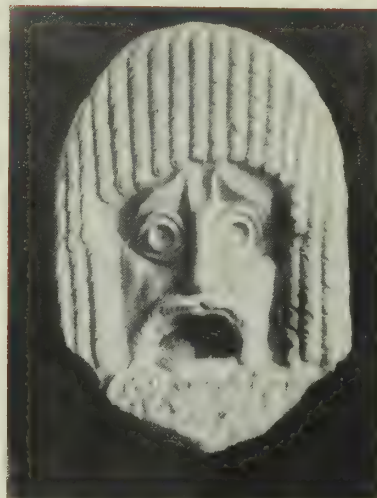
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FORBES, JULY 15, 1970

Side Lines

Whether To Laugh . . .



"LAUGH and the world laughs with you. Weep and you weep alone." We thought of Ella Wheeler Wilcox' famous line recently when Senior Editor Stephen Quicquel made a comment about this issue of FORBES. Steve, the editor in charge of the issue, remarked: "Boy, we've sure got a budget of bad news this time." He ticked it off: two postscripts to the Penn Central bankruptcy; another on The Four Seasons Nursing debacle; a cover story that suggests that the utility industry—far from being a haven for safety—may be heading into serious trouble; a piece on Wall Street's continuing troubles; a fancy deal at a glamour company. "I wonder," said Quicquel, "whether we'll give our readers the feeling that we think the world is coming to an end."

Why all this weeping and so little laughter? We hasten to inform you that, no, we do not think the world is coming to an end. The U.S. economy is fundamentally healthy, and many stocks are bargains at today's depressed prices. Why then so much bad news? Simply because we believe in Santayana's now threadbare phrase, that "those who cannot remember the past are condemned to repeat it."

In short, we're seeking to help our readers learn from the things that went wrong. In writing about Penn Central, we're not muckraking; we're talking about some bigger questions the bankruptcy raises for other big public corporations. As we point out, it was complacency more than duplicity that led to the mess. To dismiss Penn Central as a simple case of bad management and nothing more is, in our view, also complacency. (We wish we had been less complacent ourselves when we were writing optimistic pieces about Penn Central in the recent past. We weren't, but we *were* among the first to point out the hazards of permissive bookkeeping, slapdash conglomeration, "performance" investing and other oversimplistic business concepts.)

Again, in this issue, there is a detailed and somewhat pessimistic report on the utility industry. The point of it is that the fights against pollution and against inflation, however desirable, are going to have difficult consequences for the utility industry. And talking about Wall Street's troubles, we don't just hang crepe, but go beneath the surface and try to point the way out.

So don't misunderstand us. We're not pessimists. But we feel the U.S. economy will be healthier in the long run if businessmen face squarely up to their problems. We're not being gloomy. Just realistic. There's a good deal to be optimistic about. But not blindly so. ■

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Trends & Tangents

FOREIGN

On 1929

For a while the Tokyo stock market seemed immune to the climate on Wall Street: While the Dow-Jones industrial average dropped 15% in 1969, the Japanese equivalent climbed 42%. But that was 1969. This year the two markets have paralleled each other in a way that might baffle even a statistician. Both markets slid some 20% in April and May, only to be followed by record single-day rallies only one day apart (on May 26 and 27). The May low for Tokyo's version of the DJI was symbolic if not apocalyptic: 1929.

Muchachas y Moneda

"Sex plays an important role in everything we do," says Greg Garcia III, a senior vice president of the Banco Filipino, the largest savings bank in the Philippine Republic. That is why, 18 months ago, the Banco Filipino established a branch in Cubao staffed entirely by women. Even the guards wear mini-skirts—but don't mess with them. They are trained in judo and karate, and they know how to use the .22s they carry. The girls, all under 26 and all, except the manager, unmarried, have made Cubao the most successful Banco Filipino branch. Says one customer, "Sometimes I put my money in one day and take it out the next just to have an excuse to come in."

BUSINESS

Write Off Moving

Those looking for a new job can write off virtually all their moving expenses under provisions of the new tax act. Included as valid deductions are house-hunting trips before the move, temporary living expenses in the new location and fees incurred in buying, selling or leasing a residence. Although such deductions are limited to \$2,500, they now cover the individual changing employers and the self-employed. Not qualifying as self-employed are semi-retired executives who retire early from a firm but are retained as consultants.

Lib, Women's & Men's

So fast is the women's liberation movement gaining converts that it has inspired four new newsletters in the last five months (the latest, *Title VII Report*, takes its name from the section of the 1964 Civil Rights Act prohibiting discrimination because of sex). But the prospective end of one bit of sex discrimination may help men rather than women. Congress now has before it a bill that would raise certain social security benefits for men to the same level women now enjoy, thus increasing male benefits by nearly \$1 billion the first year.

The Ripe Time

The power companies' need for low-sulphur fuels that will reduce the air pollution created by steam plants is finally opening up the West's vast but still largely undeveloped coal reserves. Portland's Pacific Power & Light and Omaha's Peter Kiewit Sons have worked out a deal to develop a 300-million-ton deposit of low-sulphur coal that Pacific Power owns in southeastern Montana, while the Union Pacific is already selling to five electric utilities some 150 million tons of Union Pacific's enormous low-sulphur reserves. ■

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READERS SAY

Dr. Handler Objects

SIR: I write to register my great indignation regarding the synthetically simulated picture, depicting me in a fictitious situation, which appeared in *FORBES* on May 15 alongside the account of an interview with me.

There was no indication that the picture was in fact a simulation, thereby misleading your readers into concluding that it represented a confrontation between either me, personally, or the National Academy of Sciences, with some element of the militant black community, a conclusion which would be totally false.

It should be clear that, in contrast to the inferences which might easily be drawn from the synthetic picture, while I quite agree that science and technology alone are insufficient as approaches to the multitudinous problems faced by our society, I also firmly believe that wise utilization of science and technology can yet be of great assistance in these regards and remain the principal tools of this civilization for improving the condition of man.

—DR. PHILIP HANDLER
President,
National Academy of Sciences
Washington, D.C.

On The New Yorker Reprint:

SIR: ... cancel my subscription...
(*FORBES*, June 15, p. 17).

—FRANCIS M. TAYLOR JR.
Largo, Fla.

SIR: ... I request immediate cancellation of my subscription...

—FRANK G. SISCOE
Plainfield, N.J.

SIR: ... cancel my subscription.

—M. ARNOLD BOLL
Chapel Hill, N.C.

SIR: ... a fine example of responsible journalism.

—JAMES E. HOWARD
Vice President,
Wunderman, Ricotta & Kline
New York, N.Y.

Not in This Case

SIR: In *FORBES* (July 1) you stated that Tishman "recently gave up a 50% equity in one of two Manhattan skyscrapers to be financed by an offshore mutual fund," adding that "such deals are making the traditional mortgage obsolete." Your example is wrong.

This was not a mortgage transaction; the offshore fund holds no mortgage and advanced no mortgage money to the two properties to be built. Further, our equity position in prime, new mid-Manhattan office space has not been diluted. While we contributed a one-half interest in our Avenue of the Americas project to the joint venture, we acquired a one-half interest in a comparable-size project on
(Continued on page 72)

Show me an important man
in business
who does not read
FORBES Magazine

and I'll show you a man who thinks bread
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Forbes: capitalist tool

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AN ENCOURAGING WORD

Immediately after listening to the President's address on the state of our economy last month I predicted to other **FORBES** editors that I thought the stock market would bounce up that afternoon. It didn't—that afternoon. Reaction by many in the business world and on Capitol Hill to the Speech was so tepid that I wondered if they'd listened to the same words.

At the very outset President Nixon reiterated a course of action that can only mean the soon and soundly healthy resumption of our economic growth—after the present painful pause to slow inflation and to redirect our national policies.

How can any economist or any of the rest of us lesser mortals fail to be exhilarated by the new horizons dawning from the end of war-defense emphasis? The forthcoming, exciting productive war on our numerous home-front problems of housing, education, health, employment, transportation, insurance, pollution should renew confidence and reawaken desire to be a part of, have a piece of the action.

Said the President: "We are spending \$1.7 billion less on defense than we were a year ago. In the next year, we plan to spend \$5.2 billion less. . . . 400,000 military and civilian employees have been released in this past year by our armed forces. . . . Cutbacks in defense spending have reduced jobs in defense plants by about 300,000. . . . Our scheduled transition from a wartime economy to peacetime consumer economy will be kept. . . . Reduction in defense spending gives us more room in the federal budget to meet human needs at home. . . . This is a historic re-ordering of our national priorities."

What more could we want, wish for, pray for? To put the icing on the cake Nixon reiterated anew his intention to continue substantial chops in rising federal spending as a means of braking inflationary demands. He coupled that with what I considered the almost-startling announcement about the money supply: "In the past six months the money supply has grown at a rate of about 6% a year." Obviously it must be considered greater than that presently to have brought the *average* to this level. This increased availability of money will ease present costly costs for plant modernization and expansion.

So, as said to begin with, I will be darned if I can understand the lukewarm reactions of so many See-ers and Sayers.

What more by way of encouragement could he have said? If he had announced the Instant End of our Indo-chinese involvement; if he had announced that inflation had suddenly and totally ceased the night before; if he had announced that everybody could have the money they needed and the profits they wanted and the wages they wanted and any and all the jobs they wanted—the speech might have been more dramatic. But, somewhat short of all that, it should hearten the economy.

The President is a graciously stubborn man. Short-term fluxes and day-to-day flexible policies are not his style. While this may be regretted by some sometimes, it is a sound assurance that the great, fundamental redirection of national priorities of which he speaks will be maintained by his Administration. And that is about all sensible people could ask or hope for.

If this sounds a bit panegyric, that's intentional.

FIRST-RATE PROPOSAL

The First Amendment Freedoms Act sponsored by liberal and conservative Democrats and Republicans seems like a top-notch and timely proposal. It would prevent extremists on both Fringes from violently violating our citi-

zens' First Amendment Freedoms of speech, press, religion and assembly through the use of fists or alegal Law.

It looks like a meaningful, worthwhile proposal worthy of prompt passage.

A MAN OF REASON AND STRENGTH

All of us who work at the business of business can take some comfort and confidence from the fact that George Schultz now counsels the President on a par with Messrs Mitchell, Ehrlichman and Kissinger.

His approach is pragmatic rather than dogmatic, dogged not docile in pursuit of policies and programs he deems sound and sensible.

Incidentally, he had these qualities as a very young youngster. We grew up together in Englewood, New Jersey. I found then his tenacity at schoolwork a bit of a pain in the neck. Then—at eight and nine and ten years old—as now, I didn't like working harder than necessary. George, by dint of digging until he had mastered the arithmetic lesson or the geography homework, kept making it necessary for all the rest of us to try harder if we were to get decent marks.

On Friday evenings five of us, including George, would traipse a mile and a half to neighboring homes after our Boy Scout Troop meeting. Time and again he would damp-

en our enthusiasm for some un-Scoutlike mischief. When he couldn't talk us out of it, he would disassociate himself from the scene and stoically go on his way. At 12 and 13 and 14, that takes more determination than perhaps is now recollectible.

It isn't every Secretary of Labor who would have the courage to urge companies to take "strong positions" against high wage settlements even if it means a strike. Not long ago, Labor Secretary Schultz did just that: "We can't make industrial peace our sole and main objective in collective bargaining. . . . While I'm not saying the strike is desirable, the peaceful strike is probably one of the least worst forms of protest we know. . . . Union leaders cannot take the position that their members should not be asking for high wage increases. That's got to come from management, and if there are no people who take that position, we will never be able to solve these [inflation] problems."

When George Schultz has them, the Presidential ears will be in good hands.

TO OFFER OR NOT TO OFFER

When luncheoning business guests at corporate headquarters, do you offer drinks or don't you? Some do and some don't and some serve sherry.

We were bantering about this unmomentous and unresolved business problem recently, when hosting the headmen of Commercial Credit Company. President Donald S. Jones told of the bank chairman who issued a memorandum

to all employees who have any contact with the customers, forbidding them to drink vodka at noontime because of its reputation for leaving no tell-tale aroma on drinkers' breaths.

"We'd rather have the customers know you were tight, than to have them think you are stupid."

(Note to humorless readers: It's a joke.)

WHAT'S WRONG WITH THIS IDEA?

While the number of plane hijackings is down, there are still too many. *Any* is too many.

Why can't the appropriate federal agency or agencies simply issue a dictum that any hijacked plane landing at any U.S. airport to refuel in the course of its unauthorized flight *must* have its tires shot dead immediately? No ifs, ands or buts.

Since so many of those bizarre takeovers seem to involve lengthy flight and refuelling, this edict should stop them. Every would-be hijacker would know that the decision wasn't in the hands of the pilot, or the passengers, or subject to bargaining.

Combined with mandatory jail sentences, mandatory tire-shooting should help end the horrendous practice.

MORE EASILY FORGIVEN

Most times I am glad that people are more apt to be tolerant of mistakes, more apt to be forgiving of failure than they are of perpetual rightness and great success.

What is it about the person who is always right, the person who constantly succeeds, that so irritates the rest of us mortals?

—MALCOLM S. FORBES,
Editor-in-Chief

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But, for all its strength, the Falcon has a softer side to it. The 130-odd Falcons now flying over the U.S. are among the most comfortable aircraft in the world. The Falcon has ample space to carry

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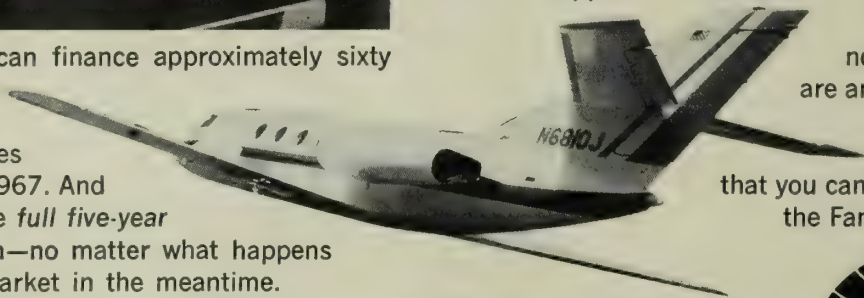
And there's more. Much more. The Falcon is also the quietest business jet in the world. As a matter of fact, the noise level you'll find in a Falcon probably compares with that in your own office.

The Falcon is much quieter from the *outside*, too. In fact, the Falcon is the first jet to meet the new FAA noise requirements for take offs.

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Bonds: A Market for Everyman or a Passing Fancy?

"A bond a day keeps inflation away"—Wall Street doggerel, circa 1970

A PROPER LADY with gray hair and an overly long skirt popped out of a safety deposit booth in a Westport, Conn. bank the other day. In her arms she held an immense pile of AT&T stock certificates encircled by a rubber band. "Cash these and put me in bonds," she told the bank manager somewhat indignantly. The manager shook his head grimly, but he proceeded to do what the elderly customer had instructed.

The manager knew he was cornered. All he could offer the woman on a routine savings account was 4.5%. All the savings bank across the street could pay was 5% on a regular account along with a gift frying pan, or 6% on a certificate of deposit. But the woman could get 9% on a corporate bond rated AAA by Moody's. If she invested in a tax-exempt municipal bond yielding 7%, and was in a tax bracket over 50% (and who could doubt it), she might obtain an annual return equivalent to 14%.

Seeing the Light

Many individual investors have been coming to the same conclusion for the past year. The difference between the yield on Moody's AAA bonds (8.54%) and Standard & Poor's 500-stock index (4.16%) was as much as 4.38% recently. The gap is enough to send a stock salesman out to a three-martini lunch. But it has brought a new snap to the talk of colleagues in the bond departments of brokerage houses. "I've even gone over to them myself," says Edward Farrell, chief of research at E.F. Hutton. "And I never thought I'd ever buy a bond."

Not so many years ago the bond market was almost entirely an institutional market. It only paid 4% or 5%, and the individual could do as well in savings & loans. The return was barely enough to keep up with inflation, but it was the traditional way to invest, and after all, the men who managed this money weren't usually paid to take chances.

Suddenly, many institutions became "performance-minded" and began to



shift toward equities or at least equity participations. At the same time, money became tight. The two factors, occurring more or less simultaneously, sent bond prices soaring.

For a long time, stock salesmen had told people that stocks, held for the very long pull, paid 8% on average, far better than bonds. But here was the stock market turning sour and bond yields creeping past 8% and on to 9%. Converts began to be made. Even as institutions were shifting increasingly from bonds to stocks, a great many individual investors were doing just the opposite.

A good deal of the public buying of

bonds involved what is known as "disintermediation." That is, the public was diverting money from savings accounts and insurance policies and the like directly into bonds—thus "disintermediating" the traditional bond-buying institutions.

Sidney Homer, partner of Salomon Bros. & Hutzler and a ranking philosopher of the bond market, feels that the new investors are largely "average savings bank depositors, not wealthy stock market people. Here is a way to put money out at 9%; no better way to beat inflation." Homer notes that in 1968 individuals put \$27 billion into savings accounts and \$9 billion into the bond market. In 1969, however, there was a complete turnaround. Individuals placed only \$9 billion in savings accounts but \$29 billion in the bond market.

Line Forms to the Right

The individual investor has remade the structure of the bond market. Merrill Lynch, Pierce, Fenner & Smith recently was the prime underwriter, for example, of a \$100-million issue of New Jersey Bell Telephone debentures, which went like hot cakes at the highest investment yield, 9.35%, and the highest company interest cost, 9.43467%, ever paid by a subsidiary of American Telephone. Merrill Lynch, as the manager of the underwriting syndicate, was allotted only \$7.7 million of the issue. But with its 190 branches and numerous small accounts, it was able to push out \$27 million worth; it picked up most of the extra \$19 million or so from other members of the underwriting syndicate. Of the total, institutions bought only \$9 million, but individual investors picked up the remaining \$18 million.

While not sophisticated investors, the newcomers are trying out all types of bonds—governments, municipals and corporates. Last year individuals bought \$8.5 billion worth of government bonds, \$4 billion worth of federal agency issues, \$5 billion worth of municipals and \$7 billion worth of corporate bonds. It is obviously a high-

ly diversified market, and it has doubled the bond volume of some Wall Street houses in 1969 and so far in 1970. Short-term corporate bonds maturing in three to five years have been extremely popular. And some investors are being coached on developed portfolio techniques. They switch from, say, seasoned to unseasoned bonds, or between corporates and governments, which have been yielding about 200 basis points, or two whole percentage points, below corporates.

What appeals to some investors, such as Richard S. Katz, a Los Angeles salesman, are the opportunities in discount bonds. These are bonds floated two to 30 years ago at par (usually 100). Now they may be down in price, down to 60%, 50% or even 40% of face value. The yield, if held to maturity, has risen well ahead of the coupon rate (annual payment) on the issue. When the bond matures, the holder stands to receive 100 cents on the dollar. "I feel I'll make a hell of a good profit from them along with a nice yield while I'm waiting for them to mature," Katz says. Another advantage of discount bonds is that the gain at maturity is usually a capital gain.

Brokerage firms have been slow to embrace the bonds phenomena largely because the commission on a \$1,000 bond sale was only \$2.50. Most houses have raised the fee to \$5, which is still only one-half of 1% compared with 1.6% on the average stock trade. Merrill Lynch, for one, has tried to fatten the kitty by offering sales credits to high performers. Salesmen are beginning to bring their talents to bear more, however, on the bond market. Issues for a sewage disposal district are made to sound like glamorous pollution control stocks.

Who Is Smarter?

With the Federal Reserve allowing for an expansion in the money supply, there already has been a movement by some institutions—banks, insurance companies, pension funds and even mutual funds—back into the bond market. If this trend continues, bond yields will probably drop and bond prices will rise. If that happens, the little bond buyer may turn out to have been smarter than some of the big institutions; not only will he have reaped a handsome interest rate but a capital gain as well. All of which will leave him a good deal happier than most recent stock market investors have been and could even create a whole new class of habitual bond buyers. "I think we've got some permanent investors," says Albert M. Wojnilower, vice president of the First Boston Corp. "Those savings bank types tend to be believers." ■

Penn Central—The Unanswered Question:

What were the prestigious directors doing while this corporate empire burned?

THE LIST at the right contains some of the most respected names in American business, as company managers or top bankers or shrewd investors. Yet all these respected men are, or were until they recently resigned, directors of the Penn Central Corp., and participants in one of the worst disasters in American corporate history since 1929.

Beyond the immediate disaster, however, is a set of old concerns that may have even longer-run impact: the responsibilities of directors. Congressman W. Wright Patman (Dem., Tex.) is asking how bankers, in their role as directors, can obtain intimate details about a company's finances and then, as bankers, run giant investment operations that could be buying and selling Penn Central stock.

But there is a deeper issue here than conflicts of interest. It is the all-important question of where the ultimate power sits in a giant corporation. Theoretically, this power resides in the directors. Says Stanley C. Vance, author of *The Corporate Director* and a professor at the University of Oregon: "In practically every corporate charter you'll find the simple statement that the function of the board of directors is to 'manage and control.' Most boards abdicate this responsibility. Though they are composed of well-meaning and dedicated, competent individuals, they just don't have the time to run an enterprise the size of the Penn Central. As a consequence they are, in a sense, derelict in their duties." Not in any legal sense, but simply that they could not possibly do what was, in theory, expected of them as directors.

Whose Business?

If men like those who constituted the Penn Central board are, in Vance's words, "derelict in their duties," who is to blow the whistle on incompetent, ineffectual chief executives?

Otto N. Frenzel was one of the Penn Central board's most senior members until he resigned last month. Frenzel defends the use of important outsiders on the Penn Central board. "If you take individuals who have accomplished things and been successful and you eliminate all of them from the board, you won't have anyone who is worth a damn on the board."

Frenzel believes that the situation of the railroads in general is so bad there was little the Penn Central could do. "The railroads never had any subsidy while every other form of trans-

portation had billions in subsidy. You take this, along with the antiquated union-labor laws, and nobody can operate this railroad, in my opinion, unless things change fundamentally."

Frenzel is partly right. More so, certainly, than many of the ill-informed critics who are putting *all* the blame on management; certainly the railroads *are* getting a raw deal. But Frenzel is ducking part of the issue. A top former Penn Central executive says: "Boards can't run companies. Only a chief executive officer can. The trouble with the Penn Central board was that it vacillated. It had cliques. It wouldn't allow anyone to be a real chief executive. Not Stuart Saunders. Not Alfred Perlman. Not David Bevan. To this extent, at least, the board *is* at fault, and seriously at fault." It is no secret that Alfred E. Perlman (p. 56) was made chief operating officer but was never allowed to operate. That the creaky and ancient Pennsylvania Railroad methods, in a kind of Gresham's law, overwhelmed the more modern and efficient New York Central system. That Saunders, a great negotiator and a topnotch legal man, had neither the inclination nor the time to run the railroad. That David Bevan ran the company's financial affairs pretty much to suit himself.

Gone: \$100 Million

Then there is the embarrassing question of dividends. From the time of the merger until last fall, Penn Central paid out nearly \$100 million in common dividends. During this same period its working-capital position deteriorated by \$140 million and its debt climbed sharply. Why did the directors approve the payment of dividends on such a large scale?

For a long time, the newspapers and the politicians are going to talk over the Penn Central disaster. Most of the talk will be about the wrong things—poor passenger service, too much diversification, high executive salaries. But these aren't the most important issues. The big problems are these: laws that smother the railroads while supplying tax dollars to their competitors; and whether a board of directors can act forcefully when management is out of control. As to the first set of problems, it is now the responsibility of Congress to act. As to the second, the Penn Central board—many of whose members represented substantial holdings in the company—did *not* act effectively. ■

\$100,000,000

Pennsylvania Company

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Maturing

Directors

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1, 1975

- *Stuart T. Saunders
Chairman of the Board, Penn Central Co
- *Paul A. Gorman
President, Penn Central Company, Philad
- *David C. Bevan
Chairman of the Finance Committee, Penn
- *Alfred E. Perlman
Vice Chairman of the Board, Penn Cent
- *Louis W. Cabot
Chairman of the Board, Cabot Corpor
- William L. Day
Chairman of the Board, The First P
- *John T. Dorrance, Jr.
Chairman of the Board, Campbell So
- *Otto N. Frenzel
Chairman of the Board, Merchants N
- *E. Clayton Gengras
Chairman of the Board and President,
R. Walter Graham, Jr., M.D.
Management of Personal Investments, E
- *Edward J. Hanley
Chairman of the Board, Allegheny Lud
- Gaylord P. Harnwell
President, University of Pennsylvania, P
- *Fred M. Kirby
Chairman of the Board, Alleghany Cor
- Seymour H. Knox
Chairman of the Board, Marine Mid
- *Franklin J. Lunding
Chairman of the Finance Committee,
- *Walter A. Marting
President, The Hanna Mining Comp
- Robert S. Odell
President, Allied Properties, San Fi
- *Thomas L. Perkins
Counsel to Perkins, Daniels & McC
- *R. Stewart Rauch, Jr.
President, The Philadelphia Saving
- R. G. Rincliffe
Retired Chairman of the Board, Phi
- Carlos J. Routh
Vice Chairman of the Board, Pittston
- *John M. Seabrook
Chairman of the Board and President, M
- Daniel E. Taylor
Management of Personal Affairs, West P

The Railroads Ask for Help

AT THE START OF MAY, the Penn Central had 18% more cars on its system than the Penn Central owned. At the same time the prosperous Burlington Northern had possession of only 62% of the cars it owned. What was happening was all too clear: The weaker railroads were staying in business by using the equipment of the stronger roads and paying rentals too low to provide a return on equipment bought with 9% and 10% money.

At the same time, freight-car orders have dropped to the lowest level in eight years—this in a period when the railroad system as a whole is short of cars. "Every railroad I know of is turning away business for lack of cars," says one top railroadman, citing grain and coal as two commodities that were suffering.

This damage to the nation's movement of freight—far more than what is happening to the now-vestigial passenger business—is at the root of the current railroad crisis. After decades of subpar return on investment, U.S. railroads are finally running short of capital; even those railroads that still have to hesitate to buy freight cars to be used on somebody else's lines.

Late last month in Washington, the Association of American Railroads held a press conference to propose a \$1-billion annual aid package from the Federal Government. A key point involved government-guaranteed loans to help finance the purchase of new freight cars and for government subsidy on the interest. It also urges establishment of a nonprofit corporation to own and manage a fleet of general-purpose freight cars, which could be shifted wherever needed but would not constitute a burden on any single railroad.

The railroads asked for other things: exemption from the \$300 million they pay every year in local property taxes (with the U.S. compensating the localities for lost revenues); government money for maintaining and upgrading railroad tracks; and loans to weak railroads. The freight-car proposal, because it would cost less and involve less direct government intervention, probably has the best chance.

Will Congress listen? Initial political reaction to the Penn Central collapse was one more of outrage than of sympathy. Truckers and airlines, perhaps shortsightedly, can be expected to object. And the railroads have cried "wolf" so many times before.

Only this time the wolf really is at the door. ■

Loaded Laggards

It's bargain day on Wall Street. But any wise shopper knows that a bargain isn't always a bargain.

FOR THE PAST 19 years FORBES has been compiling an annual list of "Loaded Laggards," companies whose common stock price is well below the value of the assets behind the stock. In recent years, in a bull market hungry for bargains and full of acquisition-minded corporations, the list has been slim pickings. To get any size list at all, our statisticians had to lower their sights and put on the list the stock of any company whose discount

from book value was 20% or more. In other words, if the book value was, say, \$25 a share, the stock had to sell for \$20 or less.* Last year, just at the height of the bull market, we were forced to classify as Loaded Laggards any good-sized company that was selling below book value to any extent. Otherwise there would have been no list to compile.

This year, the statisticians had a field day. Poring over a computer print-out of 1,800 public companies, they discovered that a full third of them fell into the Loaded Laggard class, up from maybe 7% last year.

So, they raised their sights: To get on the list this year, a stock had to sell around 40% or more below book value.

Despite the stiffer standards, this year's list is literally awash in prestigious names. Not so many years ago, Loaded Laggard was almost synonymous with Cat & Dog. But now: Boeing, Collins Radio, White Motor, Deere & Co., Chrysler, Mead Corp., Trans World Airlines, UAL—Loaded Laggards all.

Ironically, many multicompanies that were themselves the bargain hunters of the Sixties are now Loaded Laggards too. Among them: SCM,

*That is, \$1 worth of stock bought \$1.20 worth of that company's retained earnings plus the stated par value of its common stock and any small amount of capital in excess of par value accrued at the time of the initial offering.

Loaded Laggards: 1970

1968-70 Price Range	Latest 12 Months Earnings	Price/ Earnings Ratio	Company	Book Value	Recent Price	Discount From Book Value	Net Working Capital (millions)	Total Indebtedness
Electric & Electronics								
25 $\frac{1}{8}$ -6 $\frac{1}{2}$	d\$1.07	—	Admiral	\$16.68	7	58.0%	\$ 69.2	\$ 83.3
101 $\frac{1}{8}$ -12 $\frac{5}{8}$	0.98	13	Collins Radio	39.80	12 $\frac{5}{8}$	68.3	103.5	251.2
30 $\frac{1}{2}$ -10	1.27	8	Globe-Union	23.02	10 $\frac{3}{8}$	54.9	15.0	36.8
41 $\frac{3}{8}$ -9 $\frac{1}{8}$	1.29	8	Natl Union Electric	22.02	10 $\frac{3}{8}$	52.9	53.0	65.6
30 $\frac{1}{4}$ -6	0.05	—	Standard Kollsman	12.65	6 $\frac{1}{4}$	50.6	30.5	37.3
Automotive & Aircraft								
90 $\frac{1}{4}$ -12 $\frac{1}{2}$	0.11	—	Boeing	39.88	12 $\frac{1}{2}$	68.7	610.4	1,806.4
37 - 8 $\frac{7}{8}$	0.69	13	Budd	28.29	8 $\frac{7}{8}$	68.6	106.7	234.9
72 $\frac{3}{4}$ -16 $\frac{1}{2}$	0.24	—	Chrysler	42.72	18	57.9	532.3	2,441.5
57 -15 $\frac{5}{8}$	2.46	7	Kelsey Hayes	36.53	17 $\frac{1}{4}$	58.2	52.4	96.2
60 $\frac{5}{8}$ -7 $\frac{5}{8}$	d 3.28	—	Lockheed Aircraft	28.26	7 $\frac{3}{4}$	72.6	312.7	950.3
52 $\frac{1}{2}$ -25 $\frac{1}{2}$	5.56	5	Smith, A O	55.73	26 $\frac{5}{8}$	52.2	68.1	94.0
57 $\frac{1}{2}$ -10 $\frac{1}{4}$	1.64	6	White Motor	32.88	10 $\frac{1}{4}$	68.8	168.4	328.9
Food & Drinks								
34 $\frac{1}{2}$ -8 $\frac{1}{8}$	d 1.16	—	American Bakeries	17.55	9 $\frac{1}{4}$	47.3	13.3	41.2
54 $\frac{3}{8}$ -28 $\frac{1}{2}$	3.61E	8	Anderson Clayton	61.93	29	53.2	95.1	133.7
19 $\frac{1}{8}$ -5 $\frac{3}{8}$	d 2.40	—	Libby McNeil & Libby	16.18	5 $\frac{1}{2}$	66.0	67.3	154.8
19 $\frac{1}{4}$ -4 $\frac{3}{8}$	d 0.05	—	Publicker Inds	14.96	4 $\frac{7}{8}$	67.4	46.4	51.5
57 -19 $\frac{1}{4}$	2.87	7	Schenley Inds	31.65	19 $\frac{3}{4}$	37.6	312.3	294.0
24 $\frac{1}{2}$ -11	1.27	9	Sucrest	20.64	11 $\frac{5}{8}$	43.7	13.8	28.3
16 $\frac{7}{8}$ -3 $\frac{5}{8}$	d 0.54	—	Rath Packing	9.61	4 $\frac{7}{8}$	49.3	6.8	26.5
55 $\frac{1}{8}$ -8 $\frac{1}{2}$	1.50	6	Ward Foods	15.77	9 $\frac{1}{2}$	39.8	48.9	143.4
Textiles								
25 $\frac{1}{2}$ -13 $\frac{1}{8}$	1.05	14	Cone Mills	39.27	14 $\frac{1}{2}$	63.1	91.6	90.3
27 $\frac{3}{4}$ -6	d 0.19	—	Dan River Mills	23.25	6 $\frac{7}{8}$	70.4	97.6	145.1
40 $\frac{3}{4}$ -15 $\frac{3}{4}$	1.01	16	Kroehler Mfg	34.87	16 $\frac{1}{8}$	53.8	26.0	23.7
32 $\frac{3}{8}$ -18 $\frac{1}{4}$	2.70	8	Lowenstein M. & Sons	39.73	21	47.1	87.7	134.0
51 -18 $\frac{1}{2}$	2.68	7	Reeves Brothers	34.27	19	44.6	47.8	51.2
49 $\frac{5}{8}$ -10 $\frac{1}{4}$	0.75	15	Riegel Textile	25.19	11 $\frac{1}{4}$	55.3	39.6	68.1
26 $\frac{3}{8}$ -13	0.84	16	Springs Mills	28.18	13 $\frac{1}{4}$	53.0	116.0	83.1
67 -26	3.73	7	Stevens J P	62.93	27 $\frac{1}{4}$	56.7	336.3	272.1
41 -18 $\frac{5}{8}$	3.61	5	United M & M	40.01	19 $\frac{3}{8}$	51.6	266.3	442.7
54 $\frac{3}{8}$ -16 $\frac{1}{4}$	2.10	9	West Point-Pepperell	39.37	18 $\frac{1}{4}$	53.6	97.1	82.7
Paper Products								
80 -11 $\frac{1}{4}$	1.33	8	Dennison Mfg	19.14	11 $\frac{1}{4}$	41.2	43.2	42.0
28 $\frac{1}{4}$ -3	0.02	—	Brown Co	9.31	5	46.2	42.8	89.7
32 -15	2.32	7	Federal Paper Board	27.92	15 $\frac{1}{8}$	45.8	30.4	37.3
33 $\frac{1}{2}$ -12 $\frac{1}{4}$	1.45	9	Mead	24.71	12 $\frac{1}{2}$	49.4	184.3	359.9
Steel								
29 $\frac{1}{4}$ -14 $\frac{3}{4}$	2.63	7	C F & I Steel	40.81	18	55.8	83.2	89.0
52 -23 $\frac{3}{8}$	3.96	7	Cyclops	52.22	27 $\frac{1}{2}$	47.3	77.5	93.0
29 $\frac{7}{8}$ -10	0.90	11	Granite City Steel	25.48	10 $\frac{3}{4}$	57.8	48.4	197.7
40 $\frac{3}{4}$ -22 $\frac{3}{4}$	2.89	8	Inland Steel	38.23	23	39.8	137.5	551.4

Ogden, Olin and Charles Bluhdorn's Gulf & Western.

A year from now, given any kind of market recovery, some of these stocks will turn out to have been prime bargains. But not all of them. Some are laggard because they deserve to be. In some companies the earning power of the assets, modernized and expanded during the recent capital spending boom, is far above book value. In other cases, it is far below: For example, Penn Central has a book value of more than \$100 a share, close to \$3 billion in all. But management has had trouble meeting payrolls of the bankrupt railroad. Or consider the steel companies, the textile companies and some commodity processors. Their stocks have been Loaded Laggards for many years now, and per-

haps for good reason: The assets figure—which is merely an historical cost—may be way out of line with the real potential earning power.

Besides Penn Central, other big companies are in trouble today. Some will get out of it. Others will not. Among the Loaded Laggards with serious problems today are: Lockheed, Boeing and Chrysler. One danger signal for such companies is their poor ratio of net working capital to total indebtedness. For Boeing and Lockheed, for example, debt is three times the size of working capital at a time when cash flow is way down or declining. For Chrysler the ratio is nearly 5 to 1.

Of course, the mere fact that indebtedness greatly exceeds net working capital need not mean that a com-

pany is in financial difficulty, as long as working capital is adequate for operations and as long as the debt does not mature in the near future. But the investor should take a closer look at laggards with poor working capital indebtedness ratios like Ogden (5 to 1) or TWA (6 to 1).

Another danger signal to watch out for among the Loaded Laggards is the recent elimination of dividends. White Motor and Jones & Laughlin are cases in point.

Wall Street's bargain basement is crammed full to overflowing these days waiting for shoppers with money to spend. But as many a shopper has learned only from bitter experience, reduced prices alone do not necessarily mean a bargain. There may be a good reason for the fire sale. ■

Loaded Laggards: 1970

1968-70 Price Range	Latest 12 Months Earnings	Price/ Earnings Ratio	Company	Book Value	Recent Price	Discount From Book Value	Net Working Capital (millions)	Total Indebtedness (millions)
39 ⁷ / ₈ -11	0.81	14	Jones & Laughlin	42.71	11 ¹ / ₂	73.1	164.9	525.8
33 ¹ / ₂ -16 ⁷ / ₈	3.32	5	Jorgensen Earl Co.	28.90	17 ³ / ₄	38.6	28.8	32.8
39 ³ / ₈ -23 ³ / ₄	2.04	12	Keystone Con Ind	48.58	24 ¹ / ₄	50.1	62.5	92.4
39 -15	2.33	7	Lukens Steel	30.75	16	48.0	26.7	20.7
48 ¹ / ₄ -13	0.17	—	McLouth Steel	47.94	13 ⁵ / ₈	72.1	65.9	162.9
53 ⁷ / ₈ -28 ³ / ₈	4.56	6	Republic Steel	64.60	28 ⁷ / ₈	55.3	176.2	737.1
28 -5 ¹ / ₂	0.43	14	Standard Pressed Steel	13.68	5 ⁷ / ₈	57.1	42.7	78.3
49 -30 ³ / ₈	3.73	8	U. S. Steel	66.47	31 ¹ / ₄	53.0	533.6	3,027.3
Industrial Farm Equipment								
38 ¹ / ₈ -13 ¹ / ₈	1.49	9	Allis-Chalmers	29.81	13 ⁷ / ₈	53.5	211.2	331.6
59 ¹ / ₂ -29	3.30	9	Deere	46.00	29	37.0	578.6	692.4
38 ³ / ₄ -22 ⁷ / ₈	2.36	10	Intn'l Harvester	41.70	23	44.8	751.0	870.9
26 ¹ / ₄ -8 ⁷ / ₈	1.48	6	Massey-Fergusson	25.46	9 ³ / ₈	63.2	355.6	635.8
Metals								
66 ¹ / ₄ -22	4.19	6	Anaconda	53.27	24	55.0	261.6	597.4
30 ⁷ / ₈ -7 ¹ / ₈	d 0.47	—	American Zinc	20.55	8	61.1	13.5	43.7
52 ³ / ₈ -17 ³ / ₄	5.02	4	Cerro	46.06	18 ³ / ₈	60.1	140.9	191.3
Retail								
26 ⁷ / ₈ -5	0.70	9	City Stores	25.54	6 ¹ / ₄	75.5	57.5	86.7
18 ¹ / ₄ -11	1.24	9	Neisner Bros	31.88	11	65.5	15.4	19.5
29 ¹ / ₂ -6 ¹ / ₂	0.94	8	Spartans Inds	15.74	7 ¹ / ₂	52.3	126.9	448.8
37 ¹ / ₄ -7 ⁵ / ₈	1.52	6	Vornado	18.84	9 ⁵ / ₈	48.9	54.2	104.5
Miscellaneous								
63 ³ / ₄ -11 ¹ / ₂	2.31	5	Allied Products	25.21	12	52.4	38.8	90.0
61 ³ / ₈ -30	3.68	8	Crane	57.45	30 ⁷ / ₈	46.3	194.3	391.7
66 ¹ / ₈ -9 ¹ / ₂	2.35	5	Gulf & Western Inds	23.16	12 ³ / ₈	46.6	576.5	1,578.9
47 ⁷ / ₈ -9 ⁷ / ₈	1.13	10	MSL Inds	21.78	10 ⁷ / ₈	50.1	32.8	63.8
29 ⁷ / ₈ -7 ¹ / ₂	0.18	—	Moore-McCormack	42.12	7 ¹ / ₂	82.2	2.1	54.4
52 -7 ¹ / ₈	0.76	10	Ogden	13.09	7 ¹ / ₄	44.6	81.1	401.7
48 ¹ / ₂ -14	1.95	7	Olin	26.28	14 ¹ / ₈	46.3	225.3	465.3
61 ¹ / ₄ -11 ¹ / ₈	1.73	7	SCM	26.05	11 ⁷ / ₈	54.4	231.8	297.6
49 ¹ / ₄ -18 ¹ / ₄	3.61	5	Todd Shipyard	41.31	19	54.0	34.0	42.2
46 -10 ³ / ₄	0.82	15	Triangle Inds	21.55	12	44.3	49.2	63.9
50 ¹ / ₄ -10 ³ / ₄	d 1.24	—	TWA	29.94	11 ¹ / ₈	62.8	171.3	1,060.1
41 ³ / ₄ -7 ¹ / ₈	d 4.68	—	Twentieth Cent Fox	14.46	8 ¹ / ₄	42.9	231.6	230.1
60 ¹ / ₂ -12 ¹ / ₂	1.64	8	UAL	32.20	13 ³ / ₈	58.5	22.9	1,341.7
45 ¹ / ₂ -6 ⁷ / ₈	d 2.34	—	Western Air Lines	19.45	6 ⁷ / ₈	64.6	20.4	286.7

d=Deficit. Note: Working capital equals current assets minus current liabilities.
Total indebtedness equals current liabilities, long term debt, deferred taxes, minority interest.

To Keep the Lights Burning...

Rarely have the power companies faced more serious problems than they do today. But there are solutions, both short-range and long: rate increases, for one; large-scale mergers, for another.

HERE is a supreme irony: Growth, long the goal and dream of businessmen, is turning into a nightmare.

The American Telephone & Telegraph Co. is a case in point. It has poured billions of dollars into new equipment and has built what most objective people concede is the world's most magnificent communications system. Yet telephone service is today choking on its own growth. Unable to keep up with demand, telephone service is suffering. In an effort to maintain standards, AT&T is forced to pay 9% and more for expansion money and then to ask for rate hikes to compensate it for the cost. Which leaves the public in the position of having to pay increasing bills for poorer service.

Think this over and ponder the implications: This situation, painful for AT&T, is even more painful for the giant electrical utility industry.

With revenues of more than \$20 billion, net income of over \$3 billion, and total assets of \$75 billion, the electric power industry is far and away the largest in the U.S.—two-thirds again as large as the petroleum refining industry and nearly twice as large as the railroad and communications industries. At last calculation, in fact, it had absorbed more than 12% of the U.S.' total invested capital. The way

things are going, in 30 years the industry will be seven to eight times the size that it is today.

Far from being exhilarated at such a prospect, most utility executives these days are more than a little depressed by it. Last year was the biggest and best year in history, but, for all that, it may well have marked the high-water mark in the industry's present fortunes. All during the late Sixties when industry revenues rose rapidly, expenses tended to rise even faster, so that earnings noticeably failed to keep pace. There were two chief villains: runaway construction costs and sky-high interest rates. Thus 1969 broke all records for sales and earnings, but even so five of the U.S.' 50 largest investor-owned power producers reported earnings declines. Potomac Electric even suspended dividend payments for two quarters as a result.

Now the negative trend is accelerating. In 1970's first quarter, 15 major power producers reported earnings declines. The number would have been greater but for the expiration of the federal tax surcharge. It would have been greater still but for the book-keeping options an increasing number of utilities have been taking. Such companies as Allegheny Power, Utah Power & Light, Baltimore Gas & Electric changed last year to flow-through

accounting, which funnels the tax savings resulting from various forms of rapid depreciation into net income. Others, Cincinnati Gas & Electric among them, have stretched out depreciation schedules.

And nearly everybody capitalizes interest costs in new construction. This tends to delay the full effect on earnings of today's sky-high interest rates. Eventually, however, the latest interest costs will begin to affect the profit-and-loss statement. Consider what happened last year to Idaho Power: With completion of its giant Hell's Canyon dam, it could no longer charge \$1.5 million in interest to construction. Result: In spite of a \$2.5-million increase in revenues, Idaho's net slid \$200,000.

Here was an industry whose earnings growth was virtually guaranteed. A highly automated industry, pretty much insulated from wage inflation. An industry virtually competition-free, with rate commissions permitting rates to keep up with costs. Technologically blessed, in that larger and larger plants meant lower and lower costs and provided yet another buffer against a cost squeeze.

A fine script for investors. But the script was written in days of 5.5% and 6% money and 3% and 4% inflation. Now money is at 10% and inflation at

Blackout: The 1965 power failure shattered the industry's technological complacency, ushered in its present troubles.



6%. This wasn't at all what the script called for.

Neither was the recent stampede to local utility commissions for rate increases. In 1968 rate increases were granted for only \$21 million, an increase of only 0.13% in the nation's electricity bill. Last year, however, the increases soared to \$145 million, an 0.9% gain. This year, the figure may skyrocket to \$500 million, a 3% gain. Electricity rates, after remaining stable for nearly a decade, have started to climb along with everything else. Even American Electric Power, the U.S.' largest privately owned producer and the industry's most outspoken advocate of low-cost power, has little hope that it can avoid seeking a rate increase in 1971. "Our only consolation," says AEP's President Donald C. Cook, "is that we'll be among the last rather than among the first."

Most companies were less comfortably off. In May Carolina Power & Light, which had applied for a 10.5% increase in April, asked the North Carolina Utilities Commission for a 4% emergency increase effective July 1—for a total of 14%. Without it, said CP&L President Shearon Harris, CP&L's interest coverage would be so thin it might be unable to market securities in the future.

In New Jersey, General Public Utilities threatened to cancel an order for 400,000 kilowatts of gas turbine peaking equipment, and warned the New Jersey Public Service Commission that if it did not get the rate increases it had asked, it might not be able to finance its other construction projects. The PSC threatened to cancel GPU's franchise. But GPU had no other choice. By the terms of its existing debt, it no longer had enough earnings coverage to permit it to issue any additional senior securities. "And GPU is only the first," said one utility man last month. "There are many many more cases coming right behind."

For the electric companies, everything had gone wrong at once. Somewhat later than most other industries, their operating costs had begun to get out of hand. Labor costs, relatively small in an industry where employment has remained stable during a decade in which capacity doubled, had nonetheless begun to rise 5% to 7%. Fuel costs had gone through the roof. Coal was short. Oil and gas were shorter. Only nuclear fuel was readily available, and most nuclear power plants were not yet functioning or not functioning properly when they were construction costs—largely because construction industry wage increases had led the inflationary spiral—had gotten completely out of hand, so much so that even the capital econo-

mies of large-size equipment could no longer offset them.

"Already the generating plants we're bringing in in '74, '75, '76 will have a capital cost per kilowatt almost twice as high as the plants we're bringing in today," says J. Harris Ward, chairman of Chicago's Commonwealth Edison. "The plant coming in later are bigger, but the economies of scale have not been enough to offset the increase in cost." Moreover, as conventional fuel plants reached unprecedented size, the technical bugs were not all ironed out, so that equipment failures—compounded by the decline in manufacturing craftsmanship—were frequent.

Toil and Trouble

At the same time, the nuclear power plants on which the industry, particularly in the East, had pinned its hopes for the future had fallen way behind schedule. The two-year delay in completing General Public Utilities' Oyster Creek nuclear plant cost the company \$7 million and more, disrupted its planning, and brought the company to the verge of a financial crisis. Plants which a few years ago promised to come in at \$170 a kilowatt were costing \$225, and coming in two years behind schedule. Operating costs were running at twice the 3.5 mills per kwh Oyster Creek was supposed to produce, and conventional fuels had regained the competitive advantage.

Not at all what the script called for. These days the industry is wondering what kind of a blessing all of its growth is going to be. Because of the growth, the industry is short of power at a time when an upsurge in air-conditioning usage has thrown all its growth projections into the scrapheap. Brownouts—voltage reductions that impair the efficiency of many appliances—were threatened throughout much of the U.S., and one government agency warned that reserves were dangerously low in New York, Chicago, St. Louis, Minneapolis-St. Paul, the Pennsylvania-Jersey-Maryland pool and all the Southeast, except Florida. Even the Edison Electric Institute convened in Boston last month amid a Boston Edison brownout.

To top it all off came the environmentalists. "The society is obviously projecting a new conscience and new goals," says Northeast Utilities' thoughtful president, Lelan F. Sillin. "To what was primarily a matter of economics has now been added another factor: the quality of the environment. But it's important there not be an overreaction in establishing unattainable standards that will result in a major dislocation of resources."

Sillin's concern is far from abstract.



Visible Pollution. It doesn't matter that most air pollution comes from autos and not from power plants, or that warm water discharges may encourage aquatic life. The utilities offer a highly visible target for the environmentalists. So the industry is turning to tall stacks, low-sulphur fuels, underground power lines, but the consumer will pay the price.

Last May the New York State Attorney General charged that Con Edison's 285,000-kw nuclear plant at Peekskill, N.Y., was guilty of thermal and chemical pollution and went into court seeking \$5 million in damages and the shutting down of the plant. A few days later, the Department of the Interior announced new pollution standards for Lake Michigan that, according to AEP's Cook, would shut down 8.5-million-kw of capacity if enforced, and halt another 7.5 million now under construction. "The Middle West will be blacked out," Cook says. "It's just that simple."

More than Money Can Buy?

There no longer seems much question that society—or the consumer at least—is going to pay for these things through its electric bills: soaring construction costs, pollution control, tight money, overfast growth. To date the industry has spent over \$1 billion on air pollution—fly ash (soot) removal, mainly—and outlays are now running around \$200 million a year. In addition, most companies are converting to low-sulphur fuel, which costs more but pollutes less, and Con Edison at least estimates that the use of low-sulphur fuels will cost it \$20 million more a year than its traditional fuels did five years ago. Public Service Electric & Gas figures that eastern utilities will have to begin using cooling towers to prevent water pollution, and this could increase generating plant

costs by \$9 a kw or \$18 a kw when capitalized. Pacific Power President Don C. Frisbee figures environmental considerations will lift the cost of new generating plants by 5% to 10%.

Pollution control is only part of the environmental movement. The same people who object to highway paving over green grass, scream at the kind of desecration involved in stringing utility lines across the countryside. The 120-mile, 200-foot-wide 345,000-volt transmission line now being planned between Ramapo, N.Y. and Binghamton, N.Y. will absorb close to 3,000 acres of land, or five square miles, roughly a fourth of the area of Manhattan. Is it any wonder that *The New York Times* inquired a while back whether the time had not come to consider why the countryside should have to be butchered so that city dwellers can have air conditioning? Should all lines go underground? A government panel estimated this might cost \$350 billion.

Such vast sums of capital hit the power companies precisely where they are most vulnerable. The utilities already are the U.S.' most capital-intensive industry. It takes \$4 in investment to produce \$1 in utility sales vs. only 65 cents in the auto industry. With utility sales doubling every decade, the capital implications are staggering. In 1970 alone, the industry will spend over \$12 billion on expansion, two-thirds of which it will have to finance externally. During most of the Sixties,

the industry generated close to 60% of its capital requirements internally. But inflation has changed all that, and the change has come at the worst possible moment, when money costs have reached the highest level in history. In May Dallas Power & Light sold \$30 million in prime grade (AAA) first mortgage bonds at 9.15%. A few days later a Cincinnati Gas & Electric subsidiary sold an issue of AA bonds at 9%, and a few days after that South Carolina Electric & Gas sold a single A issue at 9%. In June a GPU subsidiary sold a single A issue at 10%.

Equity money is no easier to come by. With the industry's price/earnings ratio at 10 (vs. 20 only five years ago), and 15 for the industrials, utility commons regularly sell below book value these days. In recent rights offerings, Con Edison's common went at \$22.50 (vs. a book value of \$35), GPU's at \$17.50 (vs. \$21.50), Consumers Power's at \$26.50 (\$28.65), and PG&E's at \$21.25 (\$22.79). At such prices, dilution, serious dilution, is inevitable.

"Never before in its history," says AEP's Don Cook, "has this industry faced so many problems of such seriousness as it's facing today and will continue to face for the next several years. It's going to solve them, but the cost of power is going to be materially higher than it ever has been before, and everybody is going to have to get used to the idea."

In such circumstances, any other industry would simply defer its expansion to a more propitious time. "If our friends at Reynolds Metals don't want to go into the aluminum beer can business," says John M. McGurn, president of Richmond's Virginia Electric & Power, "they just don't do it. But we have this \$1.9-billion expansion program coming up and we've got to pay for it now. We've got no choice about it." Electric power after all is an open-end commodity, any customer can summon it up at the merest flick of a switch, and if the power is not available, the whole system can black out. So the utilities have no choice but to expand—to keep their eyes fixed on that point five, six, or seven years ahead when their newest unit will come into operation. The script called for growth, and growth the industry got. But growth is a mixed blessing. "Our problem," says the Southern Co.'s Harlee Branch, "is how to maintain an adequate rate of return."

Which provokes the toughest question of all: How can you borrow money at 9% and 10% and invest it in a business that now is permitted by the regulators to earn little more than 6%?

Long term, of course, the answer is that you can't.

You can, of course, live off the in-

Delayed Reaction. Last winter's strike not only shut down General Electric for months, it also stalled deliveries of utility equipment needed throughout the country to avert this summer's power shortage.





Where Are The Power Lines? Hardly anyone disputes the need for a national power grid, but conservationists and others have been raising the roof as the utilities, in their efforts to create that grid, have begun stringing their high-voltage transmission lines in 100-to-300-foot-wide swaths across the American landscape. With good reason. With a sevenfold increase in demand likely over the next 30 years, the utilities could become very much the same sort of space eaters the highways have been since the war.

With land at a premium, the utilities are just beginning to realize that railroad and highway rights-of-way offer alternatives to the condemnation of wholly

new transmission routes. The railroads already have pipelines, telephone and telegraph lines along their roadbeds, and are eager to have the utilities share them. Even more promising is the highway system. The highway people, however, are bitterly opposed to any multiple use of their rights-of-way. Why? Snug in possession of one of the greatest porkbarrels in U.S. history, the highway interests are reluctant to let any other industry get a hand in the barrel. The utilities so far have been reluctant to tackle this monolith, but soon they may have to. "The highways," says New York State PSC Chairman Joseph Swidler, "offer real opportunities for multiple use of land resources."

terest rates of the past, which still constitute the bulk of the industry's borrowing. Then too, because power production is a volume business, you can probably offset some of the increase if your volume grows fast enough. And some utilities—like those in Florida, Ohio, Texas and Montana, which regularly earn 7%, 8% and 8.5% on their net plant investment (*see table*)—may have little serious difficulty, at least for a while. But most—particularly those like Consolidated Edison, which has not earned even the theoretical 6% within memory—are in for considerable trouble. Unless, of course, the regulatory commissions grant them offsetting increases in rates.

At this point, it is far from clear just how the various commissions will respond. In 1968, the year Detroit Edison asked the Michigan Public Service Commission for an 11% rate increase, it earned a mere 5.6% on its net plant investment. Last April the PSC ruled that a 7.25% return would be reasonable and adequate and then granted a mere 1.4% increase. Or again, in February 1969, Potomac Electric asked for a 17.5% increase. By August the regulators had not even scheduled hearings, and Pepco then asked for a 6.5% interim increase. In December it got an interim increase of 5%—effective, however, in February, and in April finally wound up with 13%. By then, however, Pepco had reported a 19% decline in earnings and suspended its cash dividends for two quarters.

"The thing that has saved us so far," says Robert F. Krause, president of Boston's New England Electric Sys-

tem, "has been the historical cost of capital, which is still pretty low. But a 7.5% or 8% return is going to be a minimum if we're going to attract new capital. The big problem is the local commissions, which feel, probably from a political viewpoint, that they have to put the brakes on earnings."

Higher and Higher

"One of the principal non sequiturs these days," says Consolidated Edison's Chairman Charles F. Luce, "is that because a utility doesn't have adequate generating capacity it should be denied rate relief until it gets it. And the reason for not providing adequate service is that it needs more money."

Where the regulators have been more realistic, the public has been hit with big increases in its power bills. Last May Pacific Power got the 16% it needed in Washington after only 5½ months. In June Virginia Electric & Power got 9.2% of the 10% it had wanted in only seven months. Southern California Edison's earlier 7% increase came after only 13 months. These boosts have come in record time.

Jack K. Horton, chairman of Southern California Edison, points out that during the Fifties, when interest rates rose nearly 70%, rate commissions generally provided adequate relief, and William Ozzard, chairman of the New Jersey PSC, for one, does not deny that rates of return these days are too low. "We're up in the mid-sevens," he says, "and we're headed for eight."

Even with the best will in the world, commissions may find it in-

creasingly difficult to grant compensatory increases. Virginia Electric & Power won its latest rate increase in the face of some of the bitterest consumer opposition on record. "The lady doesn't just complain to her neighbor any more," says Veeco's President McGurn. "She joins consumer groups or goes on television or writes to the governor." Veeco's experience may become the rule, not the exception.

For such reasons, some smart money managers are restricting their utility investments to companies in areas like Texas and Florida, where rate increases come relatively easy. But, even in these areas, consumerism is going to be a factor to contend with.

What about economies of scale, the benefits from building ever bigger power plants? In the past this has helped the industry fight inflation. In theory, it still should. In practice, however, the fight is no longer going well for the utilities.

According to the Federal Power Commission's 1964 National Power Survey, a 1-million-kw generating unit ought to cost between \$8 and \$10 less per kw than a 500,000-kw unit, a 1.5-million-kw unit between \$3 and \$6 a kw less than a 1-million-kw unit. Inflation has altered the precise figures since 1964, but the savings in constant dollars are still there.

According to his latest figures, AEP's President Cook says it costs about \$240 million to build two 600,000-kw units vs. \$200 million for a single 1.3-million-kw unit. At a carrying charge of 15.5%, that is a difference of \$6.2 million every year,

quite apart from the 100,000-kw bonus the large unit provides.

Extra-high-voltage transmission lines afford comparable economies. A 765,000-kv line, for instance, may cost twice as much as a 345,000-kv line, but it carries ten times as much power.

The trouble is that the size of new equipment has advanced so rapidly in recent years that the structure of the U.S. utility industry is no longer adequate to take full advantage of it. Generating units may run as high as 1.3 million kw these days, and 2-million-kw and even 2.5-million-kw nuclear power units are already being talked of. Most electric companies, however, are far too small to absorb generating units of anything like that size. Out of 1,300 generating systems in the U.S. only 50 or so are large enough to absorb even 100,000-kw units to meet their own loads, and no more than a dozen—if that—could absorb the 1.3-million-kw units now under construction. Smallness may have virtues, but generating economy is not one of them. "The large number of

separate systems," the National Power Survey declared, "costs the power consumers of this country millions of dollars every year in wasted opportunities for cost reductions."

The National Power Survey relied on poolings as the principal means whereby a fragmented industry could gain access to scale economies. The idea was to interconnect power systems, pool reserves and coordinate the planning and expansion of the entire group for the mutual benefit of its members.

Nobody pretends, however, that the 22 formal power pools now in existence achieve anything like the degree of coordination that they should. Management by committee is always difficult. Decision-making is a lengthy and difficult process, and though everyone wants to cooperate, he wants what is done to bring the greatest possible benefit to his own system. "The more companies you get into these things," says Public Service Electric & Gas Chairman Edwin H. Snyder, "the more complicated it becomes." Says

another utility executive, "My people keep telling me, you've got to have the one-system concept, but the truth is, you can't have the one-system concept unless you have one system."

The New England companies have been inclined to stagger their construction—one company building larger plants than it needs and selling the excess power to its neighbor, until the neighbor is ready to build a plant. Elsewhere a number of companies have built large new plants under common ownership, with each partner taking power in proportion to his shareholding. More recently, the most common pattern has been for a single large company to build and manage a plant in which smaller utilities have minority interests.

As it is, however, such arrangements are not really producing the scale economies they are supposed to. The so-called CCD pool, consisting of Cincinnati Gas & Electric, Columbus & Southern Ohio Electric and Dayton Power & Light, is still too small to absorb the 1.3-million-kw units that

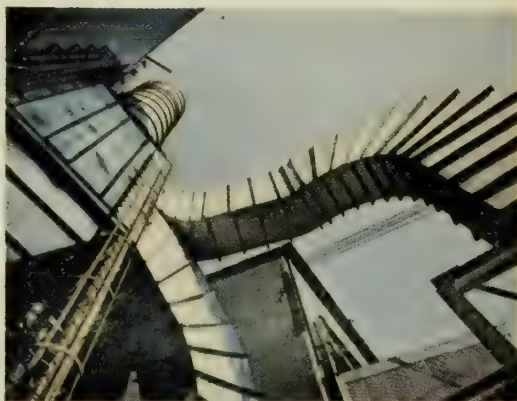
The Electric Power Companies—A Statistical Profile

With money and operating costs on the rise, most electric power companies are no longer posting their normal year-to-year earnings gains, while some companies have actually reported declines. To relieve the pressure and to assure their continuing ability to finance their expansion, most companies these days are asking for sizable rate increases.

Current Price	Price Earnings Ratio	Yield	Revenue 1969 (millions)	Company	Generating Capacity (000)	Return on Net Property†	Rate Increase Pending or Granted 1970	Earnings 1968-69 Increase	Change First Quarter 1970
22½	10	7.3%	\$612.5	American Elec Power	11,625KW	6.3%	—	4.8%	1.7%
19½	11	6.1	666.3	Southern Co	10,802E	5.9	4.0%	12.9	2.3
28¾	10	7.7	801.1	Commonwealth Edison	10,458	6.1	6.1	0	—12.1
23½	9	6.5	1,054.3	Pacific Gas & Electric	9,723	5.9	10.0	1.2	—6.7
23½	10	6.4	642.1	Southern Calif Edison	9,664	5.7	—	3.1	17.0
23½	10	7.8	1,028.3	Consolidated Edison	8,296	5.2	15.3	—3.9	—13.9
50¼	16	3.6	416.9	Texas Utilities	7,240	7.6	—	12.2	8.8
20½	13	4.7	416.1	Middle South Utilities	6,936	6.2	—	13.0	3.4
21½	8	7.8	684.0	Public Service E & G	6,154	6.6	10.6	1.2	0
21½	11	6.6	342.2	Duke Power	5,920	5.9	4.3**	7.3	—11.1
17¾	9	7.9	482.1	Detroit Edison	5,733	5.6	1.4*	2.6	—8.8
56½	15	3.5	369.5	Florida Power & Light	5,471	7.3	—	9.4	—3.0
36	15	3.3	262.5	Houston Lighting & Power	5,322	7.9	2.2	10.2	14.2†
37¾	14	5.0	327.1	Central & Southwest	5,174	7.3	—	12.7	14.9
19½	10	8.4	440.5	Philadelphia Electric	5,115	6.0	1.7	1.5	—6.4
18½	11	6.1	326.4	Virginia Elec & Power	4,910	5.8	10.0	4.9	—6.1
17	9	9.4	366.7	General Public Utilities	4,189	5.6	17.0	—5.2	—5.9
17½	9	7.5	251.4	Allegheny Power System	3,847	6.4	—	6.2	3.7
20¼	11	7.6	266.9	Ohio Edison	3,793	7.3	10.0	3.2	—1.0
14¼	9	7.7	453.6	Niagara Mohawk Power	3,766	5.3	1.9	6.3	1.7
16¾	10	7.6	284.2	Union Electric	3,720	5.8	0.7	0.6	27.3
28¼	9	7.1	549.8	Consumers Power	3,411	5.8	—	7.3	18.4†
12½	10	7.3	319.6	Northeast Utilities	3,369	6.1	10.7	4.1	5.1
22	11	6.5	187.1	Carolina Power & Light	3,172	6.1	10.5	3.5	3.4
19	9	7.8	295.3	New Eng Elec System	3,161	6.0	—	1.0	8.2
20%	10	7.8	223.4	Penn Power & Light	3,124	6.1	5.0*	0.9	—42.2
18½	13	5.3	183.1	Gulf State Utilities	3,045	6.2	—	6.1	10.1†
12%	11	6.3	184.9	Potomac Elec Power	3,029	5.8	7.4*	—19.3	10.0
19½	9	7.1	264.2	Wisconsin Elec Power	2,741	6.2	5.0	21.1	26.7
28%	10	7.5	218.5	Cleveland Elec Illum	2,405	6.8	—	5.0	—3.7

E estimate. * granted. † latest 12 months. ‡ Operating income after taxes to net property. ** 4.3% granted in the interim; 18% pending. †† 4.9% granted in the interim.

Mrs. Conte's wash is cleaner now



Mrs. Anna Conte lives in a neat white house on a hillside overlooking our steel plant in Steelton, Pennsylvania near Harrisburg, on the Susquehanna River.

Mrs. Conte has been hanging her wash outside all her married life because, as she says, "I like the clean, fresh-air smell." There was dust in the air, of course, but she didn't mind. After all, her husband worked in the steel mills for 42 years before he retired.

"But now," says Mrs. Conte, "my wash is whiter and cleaner. We just don't have that much dust in the air any more, thanks to whatever Bethlehem Steel did."

What we did, Mrs. Conte, was install new furnaces with \$2 million worth of dust and fume collection equipment. It works on the same principle as your vacuum cleaner, but on a gigantic scale. This highly efficient system captures 90 per cent of the dust particles caused by steelmaking operations.

Today, in this community about 36 tons of dust particles every day are prevented from escaping into the air—and onto Mrs. Conte's wash!

What we've done to improve the quality of the air in Steelton is typical of our efforts to improve the environment in many locations. We want to be good neighbors wherever we have operations. We will keep at it until the job is finished.

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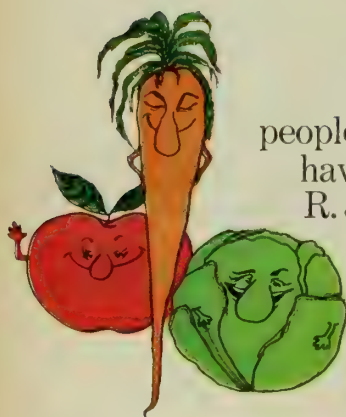
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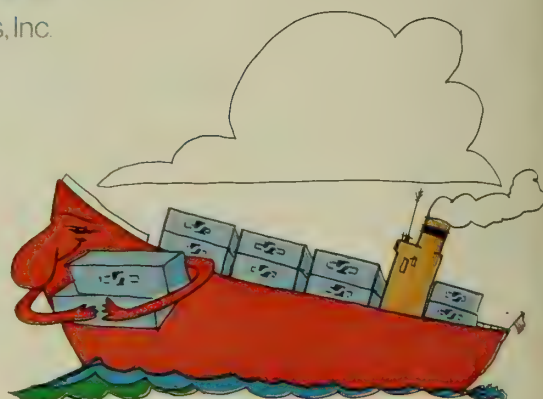
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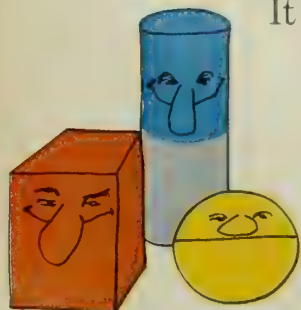
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Profitable growth.
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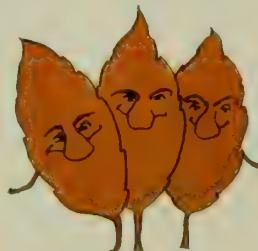
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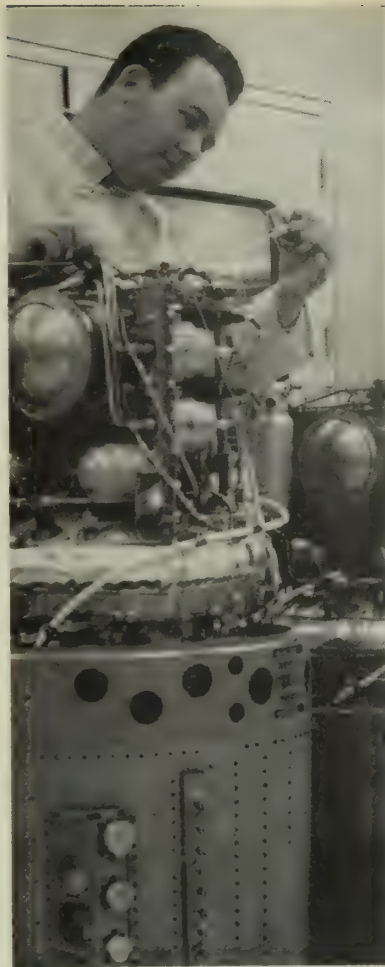
AEP is building—the biggest it can consider is 840,000 kw. And even New York's giant Consolidated Edison is no longer thinking in terms of million-kw units, though it once built one. Reliability and reserve requirements pose too many problems.

The logical way out, therefore, is to have mergers, giant mergers. Mergers are nothing new in the industry. Even after the Public Utility Holding Co. Act of 1935 rationalized the utility holding companies, mergers continued to strengthen the industry. Larger companies absorbed smaller ones as Southern California Edison absorbed California Electric Power and Commonwealth Edison absorbed Central Illinois Electric. Big companies emerged from the consolidation of numerous smaller ones as Pacific Power did after the war. Then in 1965, in a pioneering move, Northeast Utilities was formed out of three independent companies, the first new holding company to emerge since the Thirties.

After this, 15 or 20 similar mergers were proposed, including a handful still active: Central Maine Power-Bangor Electric; Iowa Power & Light-Iowa-Illinois Gas & Electric; Arkansas-Missouri Power-Middle South Utilities; Hawaiian Electric-Molokai Electric; Union Electric-Missouri Utilities; and an amalgam of eight Ohio and Pennsylvania utilities. How far these get may well depend on the two proposals currently before the Securities & Exchange Commission: AEP's bid to acquire Columbus & Southern Ohio, and the New England Electric-Boston Edison-Eastern Utilities Associates merger.

A major problem is this: On the federal level, the SEC, which has jurisdiction over the U.S.' 11 holding companies, is still committed primarily to curbing the speculative excesses of the Twenties. It has no real responsibility for or sensitivity to cost and rate problems. "We don't have jurisdiction over rates and service, only over the securities companies want to issue, and only those of subsidiaries of registered holding companies," says Solomon Freedman, head of the SEC's Division of Corporate Regulations. "There's no question," Freedman says, "that with the advancement in the state of the art [of power generation] you can have an integrated system which is larger than what you could have before. But you've got to take into consideration the advantages of local management, efficient operations and the effectiveness of regulation. You may get a company so large that you can't efficiently operate it."

You may. But experience suggests that you don't. Size hasn't impaired the Tennessee Valley Authority's effi-



Far Out? Bigger and bigger power plants may not be the only answer to the utilities' generating needs. High on the list of prospects is the fuel cell (above), an offshoot of the Apollo space program, now being developed by United Aircraft's Pratt & Whitney division. An electrochemical device that combines hydrogen and oxygen to produce electricity, the fuel cell is the most efficient form of generation yet devised—nearly twice as efficient as nuclear power, for instance—but the fuel so far is uncommonly high-cost. P&W hopes to beat that problem. Unlike conventional generators, the fuel cell offers no scale economies, so P&W sees it as powering small consuming complexes—apartments, hospitals, shopping centers. The natural gas industry sees the cell as a new market, the environmentalists as a source of pollution-free power. P&W thinks the prospects are bright enough to risk \$47 million on development.

ciency, nor has it hampered AEP's, which is half the size of TVA. Each organization ranks among the U.S.' best managed and most efficient.

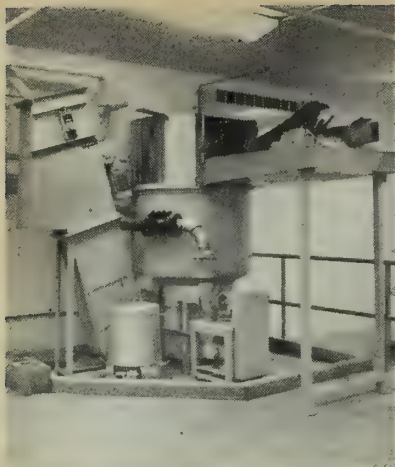
Meanwhile, though both the SEC and FPC maintain that the Justice Department has no jurisdiction over utility mergers, this has not prevented it from attempting to prove the same disruptive force in utilities as it has been in transportation. Justice argues that utility mergers should be prohibited because 1) they would eliminate "yardstick" competition—the pressure on rates and services resulting from user comparison of the rates of different utilities and 2) they would reduce competition for industrial and municipal business. "Our view," Deputy Attorney General Walter Comegys told the Senate Antitrust and Monopoly Subcommittee a few weeks ago, "is that the suggested economies of scale can be obtained by means other than merger." Ignoring recent experience, what the Department has in mind is power pools.

Vestigial Populists in both government and the utility industry continue to cling to their belief in the inherent wickedness of size, as if, even without merger, most companies were not going to be double their size a decade from now. The real motive, however, is that Willard's Law—a dictum attributed to the Baltimore & Ohio's onetime President Dan Willard that no executive willingly merges himself out of a job—is as operative in utilities as elsewhere. More prevalent in utilities, probably, because the justification for merger is probably stronger.

Indeed, it is more compelling today than at any other time, because in the utility business nothing ever occurs quickly. It takes 18 months to get a rate increase, seven years to build a power plant. The potential savings of mergers are slipping away in thousands and millions of dollars for every day that passes.

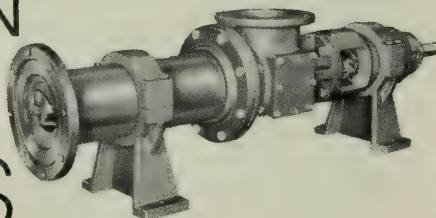
This is not to say that mergers would be a cure-all. But without large-scale mergers with the best managements emerging as survivors, the industry will be failing in its duty both to stockholders and to customers.

So we return to the paradox noted at the beginning: Here is assured growth of a magnitude any industry would envy, for the economy and the standard of living cannot grow unless electrical power production grows. Here also is a great opportunity for the industry to serve both the public and the stockholders. But there are problems growing out of that growth that will tax every bit of ingenuity the industry can muster. This is not an occasion for business as usual or for muddling through. ■



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Double Standard?

All stockholders are equal, but some are more equal than others. That seems to have been the case in Leasco's takeover of Reliance Insurance.

THE NOW-DECEASED bull market of 1967-68 was famous for two kinds of paper: the kind that piled up in brokers' back offices, and the kind that conglomerators used to get hold of dull old companies that were loaded with assets. This is a story about the second kind of paper.

Back in early 1968 Saul Steinberg, 30-year-old "boy genius" founder of Leasco Data Processing Corp., decided to use Leasco's high-priced stock to get hold of a company with a low price and high asset value. A broker, Carter, Berlind & Weill (*FORBES*, May 1) suggested that Steinberg go after Philadelphia's Reliance Insurance Co. Leasco had assets of \$195 million; Reliance had assets of \$581 million. How could \$195 million swallow \$581 million? It was easy in those days. All Leasco had to do was offer its high-priced securities in exchange for Reliance's languishing securities. Leasco sold at over 40 times earnings, over five times book value; Reliance for only 11 times earnings and over 20% below book value. In mid-1968 Leasco offered \$72 in its preferred and warrants for each Reliance share.

Reliance management urged stockholders to reject Leasco's tender offer. So Leasco's representatives talked with Reliance directors Richard A. Corroon Jr. and Edward S. MacArthur, who represented two of Reliance's biggest blocks of stock. Leasco offered to buy the stock held by them and their associates. Leasco already had bought 2% of Reliance and the two directors held 14% more, enough to virtually assure Leasco's takeover.

Problem: Corroon and MacArthur didn't want Leasco's paper. They wanted Uncle Sam's green paper. Leasco didn't have the cash to buy out all Reliance's stockholders. At the price it was offering, that would have cost \$393 million to acquire the 97% of Reliance it finally got.

Leasco's solution: It persuaded MacArthur and Corroon to take Leasco's preferred stock and warrants, but they didn't have to hold them. It was arranged for them to sell their new Leasco paper at the \$72 price—for a total of \$57 million—to a group of institutions. Among them: Continental Illinois National Bank and Chase Manhattan; both took the securities for their trust accounts.

Why would the banks hold Leasco paper when Corroon and MacArthur wouldn't? Thereby hangs the tale.

What happened was this: Leasco guaranteed to buy its stock and warrants back from the institutions at the \$72 price plus \$600,000 a month for every month the stock was held. This amounted, in effect, to an interest rate of 12.5%. On top of that, of course, if Leasco went up, the holders could sell out; in fact, Leasco agreed to register the stock and arrange an offering if the holders wanted it. For the institutions, a nice profit with virtually no risk. Leasco got the Reliance stock it needed.

Reliance management, seeing 16% of the stock already in Leasco's hands, surrendered. The other Reliance stockholders took Leasco securities.

A number of people came out very well. Corroon and MacArthur got their cash. The institutions last month tendered half of their paper to Leasco for \$31.9 million and will get that amount plus additional interest for the remaining half by Oct. 1. As for Saul Steinberg and Leasco, they now rule assets of \$1 billion and a far more diversified and less speculative business than the one they started with.

For many other Reliance stockholders, the gains proved illusory. Those who sold their Leasco securities fairly fast came out as well as anybody. But not so those who held them. The



package of Leasco preferred and warrants valued at \$72 in 1968 today sells for around \$27, down 63% since the Reliance merger. Which leaves Reliance stockholders worse off in terms of market value—Reliance stock was 32 in the spring of 1968—and somewhat worse off in terms of quality. Meanwhile, the deal cost Leasco \$64 million at a time when cash is at a premium for everybody.

There was nothing secret about the deal. It was all spelled out in Leasco prospectuses. But was it really fair to smaller stockholders? That's a good question. ■

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Fort Howard Paper

Green Bay, Wisconsin 54305

The Ransom of Cleveland Cliffs...

... has been paid, and the heiress is free to go her own way.

LIKE a wealthy heiress clutching her trust fund to her bosom, Cleveland Cliffs Iron has never lacked for corporate suitors. And for good reason.

How *vulnerable* she was! Some 29% of her stock was held by Detroit Steel, a small producer with dim prospects (1969 net income of \$229,000 on sales of \$109.5 million), aging plants and a stock that sold at or below book value. And how *rich*! She had vast iron ore reserves, the largest contiguous hardwood timber property in North America (350,000 acres), a cash hoard of \$40.5 million and a portfolio of steel stocks valued at \$57.7 million. To top it all off, the company had been earning an impressive 16% on sales after taxes for five years.

Time and again serious attempts were made to acquire Cleveland Cliffs through Detroit Steel. Georgia-Pacific, American Export Industries and others tried and failed. The stumbling block was always the same.

"You see, the management group of Cliffs controls about 38% of the stock," explains Cliffs' President H. Stuart Harrison. "Otherwise, with a block the size Detroit has, we would have been taken over long ago."

But while Cliffs was secure from takeover, acquisitions were virtually impossible. Under Ohio law, stock acquisitions require a two-thirds approval of the stockholders. Detroit Steel, which depended heavily on Cliffs' dividends to support its flagging

earnings, apparently opposed Cliffs' acquisitions, which might lower its dividend payout and dilute the importance of the Detroit block. And Detroit could have stopped any Cliffs acquisition simply by buying up another 4% or so of Cliffs stock.

At the same time, however, Cliffs was reluctant to do battle for control of Detroit Steel in order to free itself. The fight would be messy, would put Cliffs into competition with its customers and would saddle Cliffs with a cash-hungry, marginal steel producer. So Cliffs sat tight, waiting for a company that wanted to buy Detroit for its steel business—not for its Cleveland Cliffs stock.

At Long Last

Early this year, patience was rewarded. In March specialty steel producer Cyclops Corp. of Pittsburgh bought from American Export Industries—Detroit's latest boss—the controlling 19.3% position in Detroit for \$17 million in cash, notes and warrants. Then Cyclops announced that it planned to offer Detroit shareholders a \$17 package of preferred stock plus warrants for the remaining stock. At once, some Detroit stockholders filed suit to enjoin the offer. Would Cyclops be forced to sweeten the offer? It was just what Cliffs has been waiting for. Harrison got on the phone at once.

Two months later, in May, Cliffs and Cyclops issued a joint announcement. Instead of fighting, they had made a deal. Cyclops was withdrawing its proposed tender offer in favor of a Cliffs cash tender offer at \$16.50. Total cost: \$52 million. Under the agreement, Cliffs would keep Detroit's holdings in Cleveland Cliffs as well as Detroit's holdings in Canada's Steep Rock Iron Mines. Only Cyclops would not get cash for its Detroit stock, but Detroit instead—minus Detroit's stockholdings. Thus Cyclops, for its \$17-million investment, would get all of Detroit's steel facilities and assume all its liabilities, some of which—like its substantially underfunded pension fund—are considerable.

Despite a flurry of lawsuits from a few angry Detroit shareholders claiming they weren't paid enough for the company, the offer seems a success. By the end of June Cyclops and Cliffs held 83.5% of Detroit and were predicting victory in the courts.

What does Cleveland Cliffs plan to do with its newfound freedom? Cliffs' first step will be to consolidate its

gains. Harrison plans to sell the Steep Rock shares, thus lowering the effective cost of the deal by around \$300,000. Then Detroit's Cleveland Cliffs shares will be distributed to Detroit Steel's shareholders, increasing the holdings of Cliffs' management group to 49% and making Cliffs invulnerable to takeover.

Actually, Cliffs has its hands full in its existing business. Just last week Cliffs announced it had found the partners it needed to develop its huge \$300-million Robe River iron ore operation in Australia, an orebody that is only slightly lower in grade than the fabulous Mt. Newman project nearby. As manager, Cliffs will get a management fee and an overriding royalty, but it will take only a 15% position in the project, through Cliffs Western Australia Mining. (The other major partners are Australian interests with 40% and Mitsui with 30%.)

"We had originally considered putting up a 40% interest," says Harrison, "but when we discovered it was a \$300-million venture instead of a \$100-million venture we took a relatively minor position with our \$45 million."

Projects Aplenty

Robe River is only one item on Cliffs' agenda. Cliffs has spent millions searching for uranium and nickel, and it has invested heavily in shale oil research. These costly efforts have proved disappointing, but Cliffs isn't giving up. And with Detroit off its back, says Harrison, "I think there's an excellent opportunity right now for us to make fairly large acquisitions. We've done a lot of research in paper and cement, for example. We have very large timber properties up North that could be used for fiberboard, for example. And cement is very similar to our low-grade mining. Their quarries are just like our open pits, and they use the exact same kilns we use to make pellets." Or some of those properties could be sold and the proceeds reinvested. "We've considered that, too," says Harrison. "And we've had lots of offers."

Will H. Stuart Harrison play as shrewd a game on offense as he has on defense in the years ahead? Or, like Newmont Mining and Cerro, whose Atlantic Cement venture has yet to turn a profit, will he stumble? That remains to be seen. But one thing is clear: The sexy heiress on Cleveland's Euclid Avenue won't be sitting on her assets much longer. ■



Omen? One of Cliffs' long oreboats seems to have known the company would free itself from Detroit Steel.



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No, we're not going out of the lead business. As the nation's largest and most efficient producer of this basic metal, we will continue to get the lead out. But since we are also the nation's largest producer of zinc, and a major producer of zinc oxide and diversified into iron oxide, iron ore pellets, agricultural limestone, cadmium, copper concentrates, mercury, sulphuric acid and silver, we decided to call ourselves what we really are --

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Mines and Minds At Work For The Future

The Other IBM

IBM's World Trade Corp. is already more profitable than its parent. Soon it may also be bigger.

WHEN a stockholder at IBM's annual meeting in April questioned Chairman Thomas J. Watson Jr. about the outlook for 1970, Watson, for the first time in years, sounded gloomy. Domestic sales in the first quarter were, he said, "substantially off quota."

But Watson was gloomy only for a moment. In his next breath he went on to describe IBM World Trade Corp., a wholly owned subsidiary that handles all IBM manufacturing and marketing outside the U.S. World Trade, said Watson, "is one of the most exciting things to think about in the IBM company today."

Watson has good reason to be pleased with World Trade, headed for the past 20 years by his younger brother, Arthur, who resigned from IBM last April to become U.S. Ambassador to France. At the beginning of the last decade, World Trade's revenues were only \$372 million, 21% of total IBM revenues. In 1969 its total revenues were \$2.5 billion, 35% of the total. Its profits spurted 47% over 1968 and now come to 40% of the corporate total. This year, while domestic sales

are lagging, overseas sales are moving ahead briskly.

The 1969 gains obviously cannot be repeated indefinitely. But if World Trade's revenues continue to grow two-thirds again as fast as IBM's domestic revenues, by the late 1970s they would surpass them.

Whether they actually do depends a great deal on an American named B.C. Christensen. He runs IBM's European, African and Middle East operations, which make up about 75% of World Trade's revenues. Christensen has the ammunition to do the job. IBM's tremendous size gives it the same broad product line and manufacturing economies of scale overseas that it has in the U.S. It is dominant in Europe, almost as much as it is in the U.S. It has billions of dollars in installed computers—68% of the dollar value in Germany, 40% in the United Kingdom, 77% in Italy and 69% in France according to International Data Corp. estimates. Because U.S. commercial computer sophistication is generally several years ahead of Europe's, IBM can export knowledge

that foreign computer companies simply do not have.

How profitable IBM's overseas operation can be is dramatically illustrated by its U.K. operation. In 1968 it earned \$80 million pretax on revenues of \$300 million. Its pretax return on capital of 57% was the third highest of any company in Britain, according to The London Times. While comparisons are tricky because of accounting differences, World Trade's after-tax return on capital last year was 26%, well above its 13% for domestic operations.

In the U.S. IBM's prosperity has gotten it into trouble with the Justice Department. Similarly, IBM's success is a problem overseas. Britain's International Computers Ltd. (ICL), France's Compagnie Internationale pour l'Informatique (CII), Germany's Siemens and Holland's Philips Lamp all are trying to challenge IBM. Some are getting a helping hand from their governments: for example, ICL research and development expenses are partly government funded. According to Edwin Nixon, managing director of IBM (U.K.), IBM must bid at least 25% below ICL before it can hope to win a government computer contract.

All Together

Last spring IBM was reminded of the potential power of any anti-IBM movement. Last winter IBM had "unbundled" its U.S. prices—that is, it started charging separate prices for hardware, software and other services. The net impact of the unbundling in the U.S. was to raise prices an estimated 10% to 15%. Despite the price increase, there was no organized protest or objection either from the Government or from customers.

When IBM tried to do the same in Great Britain, however, the result was quite different. The IBM Computer Users Association decided that the unbundling would raise IBM's charges by at least 8%. It threatened to protest to the government. Soon afterward IBM announced that there would be no significant unbundling until 1972.

So a big part of Christensen's job is insuring that IBM is viewed as a good citizen. A major element in this is employing nationals. "We've got 74,000 people here in Europe," says Christensen, "and at last count 236 were Americans. Here in Paris the majority of senior positions are held by Europeans. My predecessor was a European, and when I got this job, they said, 'Gee, you got the job in spite of being an American.'"

Perhaps a token of how big World Trade looms in IBM's future was this little-noted event: Recently World Trade got a new, young salesman. His name: Thomas J. Watson III. ■

One Computer, Two Countries. This IBM unit in Paris will be hooked to big IBM computers in Alitalia's Rome offices. European multinationalism is creating companies large enough to afford costly systems.



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The annual report for 1969 is available on request: 307 East McCarty Street, Indianapolis, Indiana 46206.



Just a Little Pregnant?

**Coca-Cola's diversification seems the very soul of caution
—until you see Chairman J. Paul Austin's idea of fun.**

"COCA-COLA already is in the water business. Water is what carries our product. The water condition in this country is deteriorating. Aqua-Chem was the leader in the technology of water. For Coca-Cola to use its resources to bolster a company that is one of the leaders in antipollution was a logical approach to take." It's a diversification, true, but into water purification—period. "If you read our five-year plan, that's all you're going to get out of it."

Thus Chairman J. Paul Austin explains Coke's acquisition last spring of Aqua-Chem, a water-purification company. He denies that he is looking over his shoulder at archrival PepsiCo, which with the help of conglomeration has increased its sales over the last five years twice as fast as Coke (18% a year vs. 9%). Or that he is about to take Coke's \$140 million in cash and its virtually unused borrowing power to spread outside the beverage and food business.

Coke's first nonfood diversification seems a good one. The water purification business is sure to grow, and Aqua-Chem has installed about half

the non-Communist world's water-treatment plants, ranging in capacity from five gallons a day, which can be used in homes, to a seven-million-gallon-a-day plant in Tijuana, Mexico. "We could do a system for New York City; it's no problem," says Aqua-Chem Chairman John C. Cleaver.

Why Be Unreasonable?

Of course, Austin's go-slow approach doesn't mean *no* acquisitions. "Now, if John Cleaver thinks he should have some component added to improve his growth or technology," says Austin, "then we'd go into it."

Austin, in short, is approaching expansion just the way Coca-Cola has approached its original business—that is, by everlastingly prodding its bottlers to keep up the sales effort, expanding its soft-drink business into new countries rather than getting into new domestic businesses. Consistently earning nearly 30% on its equity, the company didn't even feel compelled to go into its related food businesses, fruit juices and coffee, until the early Sixties.

Why? Because Coca-Cola domi-

nates the soft-drink business, taking 41% of the market. Its Coca-Cola drink—by itself 34%—is so strong that the ban on cyclamates, which clobbered diet-drink sales, hardly caused a ripple in earnings. (Diet drinks will continue in trouble, Austin feels, because there's little hope of finding a way other than cyclamates to mask saccharin's aftertaste.)

Besides, while PepsiCo's sales may be rising faster, Coca-Cola's profits are growing 13% a year vs. 10% for PepsiCo, and its return on equity of 27% is still well ahead of its rival's 20%. "It's a growth business," says Austin of soft drinks. With new opportunities: "We've developed a highly nutritious soft drink that is being moved into our marketing system in underdeveloped countries."

It sounds very persuasive, until you read (*see box*) how Coke's future managers are being trained as entrepreneurs, using whose money. ■



Austin of Coca-Cola

Austin's Orphans

COKE is not against its bright young managers going into business for themselves. In fact, it gives them the money to do so. What's the catch? The young men still work for Coke; it's all part of Chairman J. Paul Austin's education scheme.

"We have a venture group," Austin says, "that we call irreverently the orphanage or the kindergarten. The *dramatis personae* change, but they're the young managers, average age 28. They have started businesses with our capital." There are today three such orphans, two in bottled water, one in plastics.

As intended, the orphans offer instant problems. Take one of the bottled-water companies. "The boy had to find his own spring," says Austin. "There had to be a building built, machinery installed. But then he could not work up the volume in time to stay alive. He has been charged money at the going interest rate; 5.5%, but it jumped to 9%. So he was faced with a lost situation."

"Then he comes in and he's getting a little older looking. But he has located an established business

with a distribution system and a big customer list. He says: 'If I add that volume to what I have, it's instant success. But I haven't any more money.' So we bought the other business. But you can't use this technique if you say, 'No, you dumb-dumb, you shot it.'

"So now he's off and running. He has a better return on investment than the parent company. His horizon is toward a nationwide system. I must take a further look at his orphan before deciding whether to go that way."

Austin recently found another of his orphans, the plastics company, long on marketing talent but poor bookkeepers. "We found the books in total disarray," he says. "They didn't know if they made \$2,000 one month or \$985. But the back orders translated into potential earnings were such that one of these brightsters says: 'When the market settles down, we can take this public for a jillion dollars.'"

But first Austin made them get their books in shape. "We don't do these things with a sense of sport," he says. "It's a learning process."

They must make money." When they do, the young managers will probably move up in Coke.

What happens to the orphans? "We don't know," says Austin, claiming it's not important. "The company gets out of it a cadre of young managers who really know what it takes to put a business together and see it run the risk of failure," he says. "It's fascinating; in three years you watch a boy grow into a businessman."

It will also be fascinating to see what impact such a generation of feisty young managers, their most memorable experiences outside the company's traditional field, will have on the outlook and finally the strategy of the Coca-Cola Co.

Will history repeat itself?

We think so.

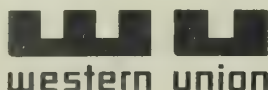
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It seems history is already starting to repeat itself.



The Money Men

What Do You Do with \$81 Million?



Heizer of Heizer Corp.

IF YOU didn't understand the circumstances you might think that 41-year-old Edgar F. Heizer Jr. picked one hell of a time—September 1969—to launch his venture capital company. Actually, it turned out to be a hell of a *good* time. Heizer Corp. was floated, to the tune of \$81 million, rather too late to get caught in the debacle in new issues that started last year. It was floated just in time to be able to buy prime commercial paper at yields of 8% and 9% and deep discount bonds to yield 9%.

But, to be sure, Ned Heizer's 35 institutional backers didn't give him all that money to buy commercial paper. That they could have done themselves. They expect him to multiply it for them by backing sound new ventures. Heizer agrees with *FORBES* that true

venture capital is very far from dead ("Has The Bear Market Killed Venture Capital?" *FORBES*, June 15), and he thinks this may be a good time to get into it.

"So far, we've invested in about eight companies, about \$10 million in all, and within the next year expect to be in from ten to 20 more. Three of these companies are startups and the others are two- to five-year-old companies that for one reason or another need some help. These latter companies we can get into cheaply because of the market.

"What happens with little companies like these is that when they have no earnings the market is willing to pay anything for them," says Heizer. "Then when they do have earnings, they are less than the market anticipated or the price/earnings ratio justifies, and the stock

goes down far more than is warranted. If the company is good it will come back. There are a lot of these bargains around now."

Of course, investing in companies that have already gone public is not the traditional venture capitalist's role. Venturers normally try to get in early at pennies per share on companies that are sold later to the public at dollars per share. Heizer, housed in offices at the top of Chicago's Civic Opera Building on Wacker Drive (built by Sam Insull), plans to do his share of investing in startups and early-round situations. "Instead of the term 'venture capital,' I'd rather refer to what we're doing as 'business development,'" he says. One of the companies he has already invested in is an ancient (for venture investing) five years old; another already has sales of \$30 million.

"A lot of venture capital outfits are pure dice-rollers," says Heizer. "It's sort of like going to Las Vegas, except in Vegas you at least know the odds. We're not going into anything on the basis that we might have one winner out of ten. And I don't really know how anyone can successfully invest that way, because you initially approach each investment as a potential failure, which is all wrong. We want every investment to have major potential. If one doesn't work out there will be a lot of commotion around here."

Does Heizer's refusal to take on extra-high-risk ventures mean that he will have to sacrifice appreciation potential? To answer that question Heizer hauls out a chart. "Suppose you invest in a run-of-the-mill company at ten times earnings that is growing at 10% a year," he says. "Now, if the company goes public at the end of the fifth year at 20 times earnings, you will more than triple your money. If that company is a really good one growing at 20% a year, and the price earnings ratio goes from ten times to 20 times, you will quintuple your money."

Ned Heizer is no stranger to venture capital investing. For seven years before forming his own company he was an assistant treasurer at Allstate Insurance Co. in charge of the private placement division. There he supervised a portfolio that exceeded \$125 million in venture capital investments. Under his direction Allstate made early-stage

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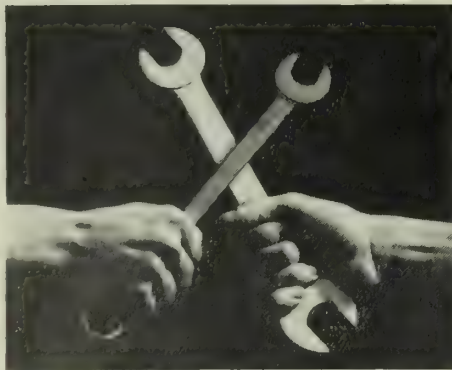
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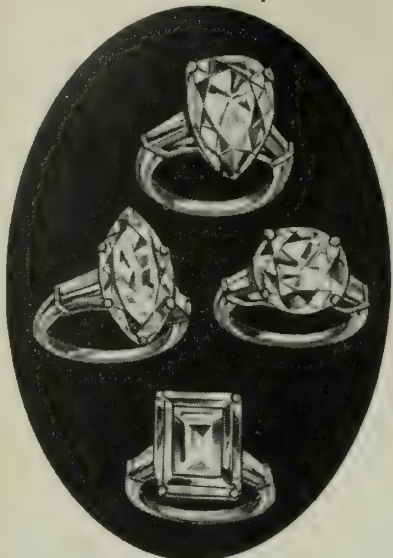
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The Money Men

investments in outfits like Teledyne; Memorex, Control Data and International Industries. Indeed, on the board of directors of Heizer Corp. now are men like George Kozmetsky, one of Teledyne's founders, and Don Eldridge of Memorex.

But Heizer found the highly structured organization of an All-state often did not meet the flexibility needs of a venture capital operation. "Any big company has that problem; that's why these big institutions decided to back us rather than try to do it themselves," he says. Also he found it hard to reward his own people adequately. "A guy who's working on a Teledyne-type of company isn't too thrilled by a Sears stock option," he explains. In his own company, Heizer's men must buy pieces of the companies they work on and also own part of Heizer Corp.

In a sense, Heizer has been preparing himself as a complete venture capital operator since his college days. He holds a degree from Yale Law School; he spent two years at Arthur Andersen as a certified public accountant doing audit and tax work; he put in two more years in the corporate finance department of Kidder, Peabody. He topped that off with a four-year stint at Booz, Allen & Hamilton as an organization consultant.

"My father started his own company, which later became part of American Cyanamid, and he gave me the idea there was nothing more exciting than having your own company," says Heizer. "Both my grandfathers were inventors and a lot of my friends that I grew up with have started their own companies." Ned Heizer, in short, was bred with an entrepreneurial itch.

By the time Heizer started his firm last year, interest in venture capital was reaching a peak. Everyone, from big banks to industrial companies, insurance outfits to brokerage firms, was getting into the business. But the size of Heizer's new operation at \$81 million topped them all, and quite a few seasoned venturers were dubious. "I think he'll find he has an embarrassment of riches," said one San Francisco operator early this year. But as Heizer replied at the time: "We're not in any big hurry to commit all that money to new ventures, and with commercial paper at 8.5% and 9% we don't have to be."

To date, he has been building up his own staff of experts to ferret out and oversee promising ventures. "We take the operational approach," he says. "We have the usual staff and then a line team that now consists of six men. All of them have had experience in certain fields and all but one have actually managed their own companies. They're experts who know what it's like. And they must invest their own money in the companies they recommend that we back."

Everett Cooper came to Heizer after building Emhart Manufacturing Co., which now has sales of over \$235 million. Robert Fritz started his own consulting firm after leaving Stanford Research and sold it to Evans Products. Charles James did many real estate developments including Hilton Head Island.

Heizer, as noted, is extremely bullish about venture capital investing despite the recent stock market crash and drying up of the new issues market. "In a country as large as this, the public always demands new products and services, and ideas for them are a dime a hundred," he says. "The main problem is not coming up with something new, but executing it properly. And for that you've got to find entrepreneurs who are motivated for self-accomplishment. Those are the ones who succeed."

On the other hand, there seems to be an ample supply of money available for venture capital investments these days, not the least of it Ned Heizer's \$81 million. Perhaps too ample to be invested prudently. Heizer concedes the problem. "What happened here in the last decade is what happened in Europe at the turn of the century," he observes. "There is more and more money being tied up in trust and fiduciary arrangements that is crying out to be channeled creatively into business development. At Allstate I often felt like a man under Niagara Falls with an umbrella. The more money I invested the more money I got; it just flowed."

To a degree, this is still Heizer's problem today in his own firm. He still has upwards of \$70 million that his backers are counting on to be invested in venture situations. But Ned Heizer is a venture capitalist pro. And he's not likely to be pressured into investing it hastily or unwisely. ■

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Physician, Heal Thyself

After generations of telling others how to run business, Wall Street is discovering that it doesn't know how to run its own.

THE New York Stock Exchange wants to hike commissions by about 20% on average—50% on smaller transactions; the change would pour an extra \$500 million into investment house coffers. Assuming that the Securities & Exchange Commission approves the commission hikes, will Wall Street's time of turmoil be ended? Probably not.

The Street's problems are not simply financial. They are structural as well. Imagine what would happen if the auto industry had a bad year and the stockholders of Ford, General Motors and Chrysler could demand that the company redeem their shares.

They cannot, of course, since almost all big companies are organized as permanent, limited-liability corporations. But on Wall Street it could happen. Around two-thirds of the nation's brokerage firms are still set up as partnerships. At a time when declining stock and bond prices and widespread operating losses are draining their capital, some partners have been withdrawing capital.

"No other major industry, service or otherwise, is still operating largely on a partnership basis," says Donald Kramer, a partner at New York's Oppenheimer & Co. "The operating structure of this business is more suited to the turn of the century than to today."

Withdrawals are only part of the problem. The stock market itself is

another. Stock values have declined by at least \$300 billion from their highs. Securities, mostly common stocks, make up about 25% of the average brokerage firm's assets. Thus the damaging effects of the market crash on member firm capital are obvious. At the end of 1968 the 646 member firms of the New York Stock Exchange had total capital of \$4 billion. By the end of last year it was about \$3.6 billion; today, despite some transfusions, it is probably still lower.

Many customers recall the lush days of not so long ago when many brokerage firms were paying year-end bonuses of 50% and more, and some partners were taking home \$500,000. Remembering all this, many an investor might be tempted to say: "So what? They can afford it."

Unfortunately, the matter is not quite that simple. The investment business cannot operate without capital, and without the investment business, there would be no liquidity in the markets, people would be locked into their securities, capitalism would virtually cease to function.

The brokerage business is not a capital-intensive business like, say, manufacturing or transportation, but when you do over \$200 billion in brokerage volume and \$22 billion more in corporate stock and bond underwriting alone, you do need capital.

For example, the memberships on the New York Stock Exchange alone—even at present depressed prices—are worth upwards of \$200 million. That's capital. Furniture and equipment for over 5,000 offices runs into hundreds of millions of dollars. Again, capital. It takes capital to back customers' margin accounts and—a growing item of late—to cover for fails to receive and deliver on transactions. It takes still more to carry inventories of bonds and over-the-counter stocks and to trade for firms' accounts.

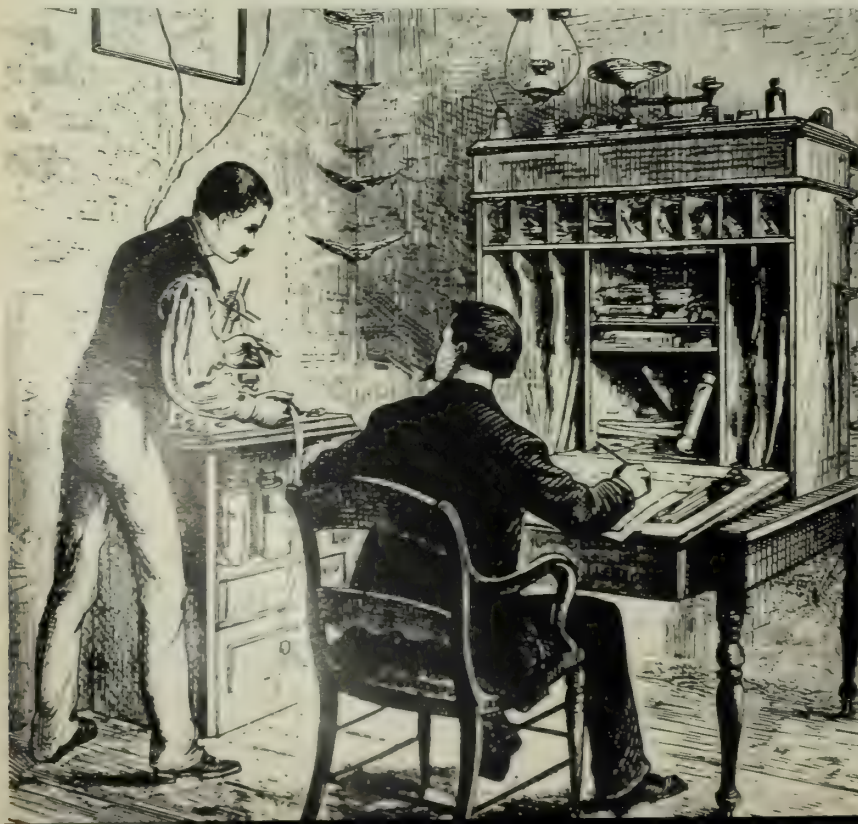
To cover all these needs last year the total funds employed by New York Stock Exchange member firms was around \$20 billion. Of this, however, some \$16 billion was borrowed—from customers, other brokers and banks. All of it was short-term. Much of this debt was offset by short-term receivables, but still it represented a debt-to-equity ratio of only 4-to-1. A dollar of equity to four of debt is not a very comforting margin of safety in the kind of bear markets we have been having.

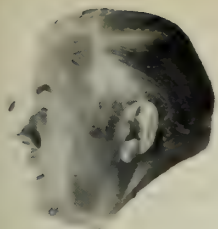
What Kind of Capital?

On top of this, a good deal of Wall Street capital is not equity capital in the sense that this is generally understood. Much of it is really borrowed money—which is again leveraged at the rate of four times or more with additional borrowed money. This is how it works: A customer agrees to lend the firm some securities and the firm then goes to a bank and borrows against the securities; the customer continues to get dividends and capital gains or losses, if any; the broker pays the bank interest on the loan and pays the customer from 4% to 8% of the value of the collateral. Expensive money? Today it can cost as much as 20%.

At one point last year, Goodbody & Co. counted claimed total capital of \$65 million; but \$51 million of this consisted of such subordinated debt. This is hardly permanent capital. Archie Albright, a partner in F.I. duPont, Gloré Forgan, who spent most of his life in the industry, finds this alarming: "The Street has been stretching its capital thin by substituting debt and securities for retained earnings as a means of financing growth."

Giant Merrill Lynch, Pierce, Fenner & Smith is a comforting exception to all this. It is slightly below the industry average for debt-to-equity, but it has an important structural difference: All of its \$275 million in capital was contributed in the form of cash, not in securities that can fluctuate in value. What's more, it doesn't use its capital to trade for its own account or take positions in listed securities. So far still profitable, Merrill Lynch does not have to cope with the operating losses





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others are suffering. Says Donald T. Regan, president of Merrill Lynch: "Some firms have permitted their capital to become far too thin by our standards, others have diverted it to uses remote from their business."

As long as the business was immensely profitable, the kind of leverage that Regan is describing brought handsome returns. But the business has not been profitable lately. Last year Big Board firms generated \$2.5 billion in commissions alone, yet more than half of the firms either lost money or just broke even. Commission income has also dropped this year.

In the past, Wall Street has ridden through worse bear markets than this one. It has survived on volume of 1 million shares and less a day, 10% of the current rate. Why, this time, hasn't Wall Street been able to cut costs? Because of high fixed costs that brokerage firms formerly didn't have; the huge, new computer setups on three-, four-year-or-longer-term leases; long leases on branch offices—in the best parts of town, naturally. An older generation of Wall Streeters would have avoided so many commitments. This generation didn't have the choice in many cases.

In the worst squeeze among great

houses was Bache & Co., where fixed costs such as occupancy and equipment expenses, communications and nonsales personnel came to almost \$1. for every dollar of revenues. Hayden, Stone, with 93 cents per dollar of revenues, and Francis I. duPont, with 92.5 cents, were not far behind. It's an awkward position. Fail to automate and you can't handle the complexities of today's trading; automate and you incur fixed costs that destroy old operating flexibility. After all, you can't give a computer a pink slip.

Of F.I. duPont, one Wall Streeter says: "They were running several thousand tickets a day through the operation which still left them 30% to 35% in the hole." This explains duPont's merger with Hirsch & Co. and Glore Forgan. "With Hirsch and Glore Forgan, they can probably break even," this money man says, "provided they can cut some other costs and trading volume doesn't dry up further." And if it does decline further? Then red ink would flow still more copiously.

In this situation, is it surprising that some partners—especially those who built up their capital over decades—should think about taking it out? And at times there is no choice. Philadelphia's Butcher & Sherrerd recently had

to cut staff and salaries by 20% partly because of capital withdrawn after the death of Howard Butcher II.

The obvious answer is to get "permanent" financing so firms won't have to worry about their capital disappearing when they need it most. Incorporation and public ownership would seem the route, but with the market in a shambles and so many firms in the red, it doesn't look promising. Donaldson, Lufkin & Jenrette issued its public stock under the wire in April at \$15 a share. The stock is currently selling at 5½. But at least its capital cannot suddenly be pulled out.

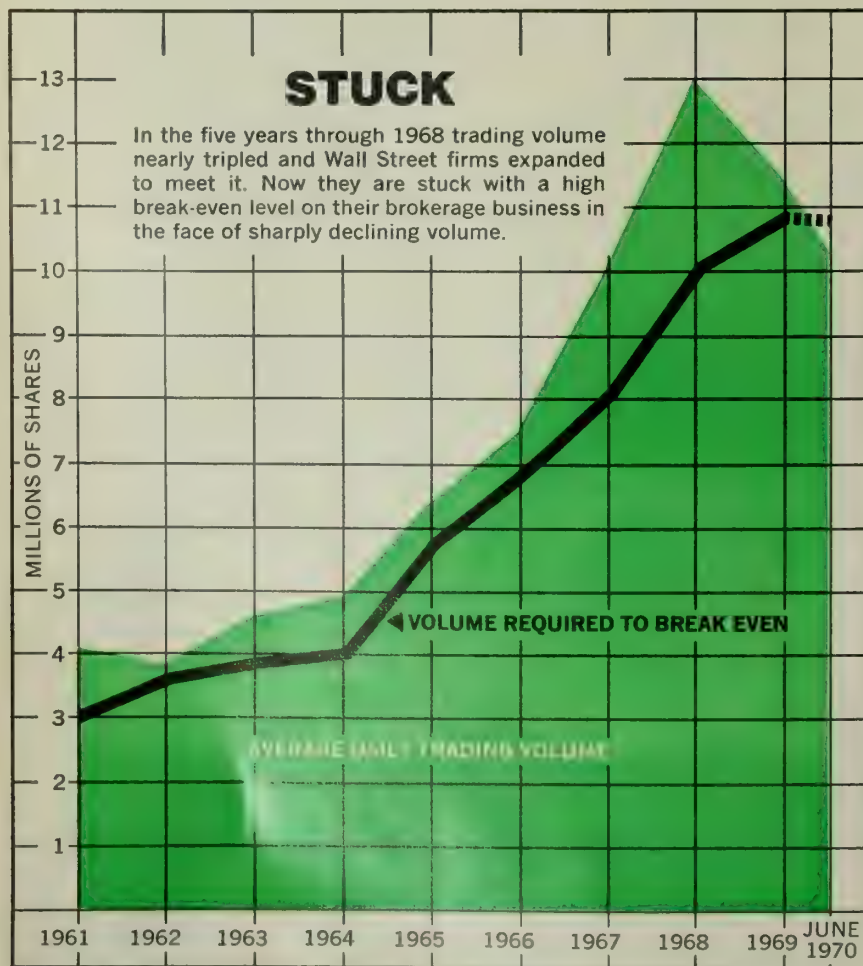
Another possibility is that bigger, richer institutions will absorb investment firms. Already Halsey, Stuart, a bond and investment banking firm, has been taken over by Lincoln National Life Insurance Co. Earlier this year another big insurance outfit, INA Corp., picked up Blyth & Co. for \$55 million; and Investors Diversified Services, the giant mutual fund outfit, bought out Jeffries & Co. But this kind of deal means quitting the New York Stock Exchange, whose rules prohibit a member firm being owned by another type of financial institution.

Is the Gloom Justified?

Visitors to Wall Street from other parts of the U.S.—where business remains pretty good—often are surprised by the depth of the gloom on The Street. Not only are the plush salaries and bonuses gone; most partners aren't even getting a return on their capital. A partner in a small old-fashioned firm—which is proud of being in the black—confesses that his total earnings for his services and for his capital in the first quarter was just \$397.44.

What happens next? A revival of the rip-roaring bull market, of course, would put the old Wall Street back into the black, but you can search up and down The Street all day and not find anyone who will predict that. The \$150-million insurance fund that the brokerage firms have agreed to set up will probably save investors from serious losses. The new commission schedule will help pay for the computers and other gear required by the modern-day brokerage house, enabling the more efficient firms to show good enough earnings to go public.

But in the end, there is only one way for much of Wall Street to be refinanced with permanent capital. The process is already well under way. The business will have to be concentrated into a smaller number of strong hands—not necessarily giants, but profitable and well financed. The Street will survive, and one day it will prosper again. But not before the old way of life on Wall Street changes. ■





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Will Quality Tell?

Is Boise Cascade just another conglomerate? Or can it continue to thrive in today's changed environment?

ROBERT V. HANSBERGER, 50-year-old chief executive of home-builder and forest-products company Boise Cascade, doesn't believe in simply adapting to change; he believes in *causing* it. This attitude, plus an astute mind and a penchant for risk, enabled him in just over a decade to turn a sleepy \$34-million-sales lumber company into a diversified \$1.7-billion construction and forest-products complex. But what will happen to Boise now?

Is it doomed, like so many other fast-growth companies, to lapse into troubled times? Not necessarily. For although Boise used many of the methods associated with the conglomerates, it was different in many ways.

Through some 35 acquisitions and (to a lesser extent) internal growth, Boise has equaled or passed in revenues its major competitors, Georgia-Pacific, Weyerhaeuser, International Paper, U.S. Plywood-Champion and Johns Manville. It has not yet matched the net profits of Weyerhaeuser (\$130 million), IP (\$116 million) and Georgia-Pacific (\$92 million). But it has still lifted earnings from \$3 million to \$76 million in eight short years.

Standing Start

This achievement is the more notable because, unlike most of its giant competitors, it did not dominate any single market—not plywood, lumber, paper, pulp nor building materials. Its acquisitions in the home-building and recreation field have made Boise at least close to being the largest U.S. land and home developer. But even here, with less than a 1% market share, it is far from dominating the field.

What Boise has done is achieve unparalleled integration from raw material to end product. It started down this road more than a decade ago when Hansberger decided that Boise must become a broad-based forest-products company with strong marketing. To do this he figured the company would have to grow 20% a year for the next ten years. It grew even faster, as Hansberger shrewdly borrowed against timber lands acquired by merger in order to get into paper and pulp, building materials, plywood and, eventually, housing. In 1966-67 Boise had \$1.25 of debt for every \$1 of equity, a ratio many in the industry saw as suicidal and unsustainable.

It proved unsustainable but far from suicidal. Through several later mergers (notably with Ebasco in late 1969) and some off-balance-sheet fi-

nancing, the ratio has come down to about 50 cents of debt per equity dollar. And as William Agee, Boise's 32-year-old financial vice president, points out, "That figure may be high in relation to stated equity at cost. But our timberlands are worth \$250 million-\$300 million more than the \$77 million balance-sheet carrying value."

Despite this high debt ratio and the erratic earnings history of many of the acquired companies, Boise had only one year (1966) in which earnings failed to gain. For Hansberger was doing what most conglomerates merely talk about. These companies were made better: Weak operations were sold, more capital put in where needed, new markets opened.

Boise has also used its formidable knowledge of finance, taxes and mergers to get more earnings mileage out of its component companies. Its effective tax rate has been kept low by the following devices: cutting a smaller amount of timber from fee lands; selling securities for capital gains; varying pension-fund allocations from year to year (a common practice); using low-tax foreign operations and the investment credit; and revaluing low-cost timberlands to produce earnings at capital gains rates (last year about 14% of earnings). In sum, over the years Boise *has* taken various accounting options to enhance earnings. No one move was crucial, but all together helped Boise's growth profile.

Any company deriving income from land sales has considerable leeway in its bookkeeping. In the late Sixties land sales and recreation development became an important source of Boise's revenue and earnings. Boise entered the field via acquisitions in 1966, and could report \$90-million sales by 1968 and \$165 million in 1969. Profits also began building up rapidly, because most of the profits are booked in the year a property is sold, though Boise, like all land companies, does not get all its money for at least seven years.

Financial Vice President Agee says of these operations, "We are about midway between the extremes of conservative and liberal accounting in the land sales business. However, we are getting more conservative all the time." For example, Boise now sets up larger reserves for possible defaults on land sales than it formerly did.

Bookkeeping aside, the trouble is that the profits from installment land sales get on the books before they actually get in the bank; a company



Boise Cascade has done well selling land for recreation in California, where the climate is right and people especially recreation-prone. The catch is that the money from these sales comes in only over a period of years.



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can develop a cash-squeeze with that kind of profits. Therefore Hansberger and his financial people felt they needed a more immediate source of money than installment land sales could provide. Ebasco (formerly Electric Bond & Share) provided the answer. Boise acquired it Aug. 31, 1969.

Ebasco was not actually loaded with cash, but it was loaded with Latin American bonds payable in U.S. dollars, \$193 million worth, which it received from sale of some utility holdings to local governments. The bonds could be turned into cash or at least used as collateral for new loans. Moreover, Ebasco was in businesses complementary to Boise's: the construction and design of heavy industrial facilities and office buildings in the U.S. And being primarily a holding company, Ebasco presented few problems of what to do about top management.

Boise is already using Ebasco's substantial tax credits and complex corporate structure to reduce Boise's taxes. According to Boise's prospectus, in a retroactive pooling the merger saved over \$7 million in taxes in 1968 and more in 1969. But it will take some years to get a reliable fix on the value of Ebasco's foreign holdings.

Big Company, What Now?

The Ebasco merger symbolized the end of an era for Boise. The new rules on merger accounting expected to go into effect late this summer will make merger accounting less flexible. And Washington's current attitude toward big-company acquisitions virtually closes the door on large-scale mergers. Hansberger admits as much, although he says, "We still will be able to make many smaller foothold mergers in allied areas of our business, and we expect to substantially expand our foreign operations, which haven't amounted to much."

But the simple fact is that in many important ways, both the company and its environment have changed. Approaching \$2 billion in sales, Boise is already so large and diverse that some segments of its business will always be holding it back even if others surge ahead. And it can neither ignore nor maneuver around the pervasive effects of tight money on home building—one reason why its earnings are down sharply in the first half of 1970.

In a way, then, Boise is suffering from the things that afflict all of the 1960s fast-growth acquirers and conglomerators. But, because there was enough solid growth, good sense and creative management behind what it did, Boise is not going to collapse. Rather, it is likely to continue growing. Only it will be growing more slowly and unevenly. ■

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Four Seasons:

A great story with an unhappy ending.

THE DAY Four Seasons Nursing Center of America went bankrupt last month, a *FORBES* reporter in London talked with a European holder of FSN Euro-dollar debentures. "What do we think about it?" repeated the victim.

"Our own fault, I guess. Last year you could bring out a bond on any hard American Stock Exchange stock. As long as it had warrants attached, the European banks would swear at you if you didn't get them some." The European debenture purchasers included such illustrious names as: Banque Rothschild; Kreditbank Luxembourg; Credit Commercial de France, and the European operations of such U.S. firms as American Express Securities, S.A., Bache & Co., Burnham & Co. and Merrill Lynch, Ltd.

So much for the "shrewd" Europeans. It now appears that they got as drunk on the heady new-issue wine as any greedy U.S. investor. Four Seasons common sold as high as 90 last year for a total market value of \$300 million. That huge sum has vanished into thin air; the stock is now nearly worthless. So are the warrants the European holders so eagerly grabbed at last fall, and the debentures they eagerly took to get the warrants now sell at huge discounts from par.

Last year, talking to *FORBES* reporters, Four Seasons President Jack L. Clark boasted: "Without the institutions we couldn't have grown nearly this fast." Clark wasn't exaggerating. At one point last year, institutions—including original underwriter Walston & Co.'s private partnership, Montgomery & Co., and Walston's discretionary accounts—owned close to 50% of the company's shares. Other institutions were important lenders and bondholders. Thus, bankruptcy for FSN has meant an investment debacle for many institutions that hold the stock, warrants and debentures of the parent, its subsidiaries and affiliates.

Some were fortunate to get out with moderate losses, like Investors Diversified Services, which sold most of its FSN stock but still held Four Seasons Equity letter stock, Summit Management Research and Winfield Growth Fund. But many more were caught, including Enterprise Fund, Gibraltar Growth Fund, Marine Midland Grace Pension (in FSE), State Mutual Life Assurance (in FSE), Manhattan Fund, U.S. Realty (in FSE) and Midland Mortgage Investors Trust. The latter had lent \$1.8 million in guaranteed loans to FSN and FSE.

All told, over a dozen institutions put some \$2 million into letter stock of Four Seasons Equity, in which Four Seasons has a minority interest. While they paid full price for the letter securities, they were also given warrants to buy into an 80%-owned Four Seasons subsidiary named Four Seasons Franchise Centers. When the collapse came, most of them were locked into their investments that have little val-

ue today or cannot be sold at all.

It's a dreary story, and the last chapter hasn't been written. There will be scandals. Four Seasons and brokers paid fat finder's fees to get securities placed with institutions. A few months ago it was disclosed that Crofters Inc. was paid a \$160,000 finder's fee to place securities and loans of companies including Four Seasons and other "growth" companies with the Ohio State pension fund. An investigation disclosed that an official managing the state's pension money had exceeded the legal loan limits with a \$4-million loan to Four Seasons. Also under investigation was an \$800,000 loan at 10½% made by Four Seasons to Financial Data Relations Inc., a Beverly Hills, Calif. financial consulting firm.

Spreading the Wealth

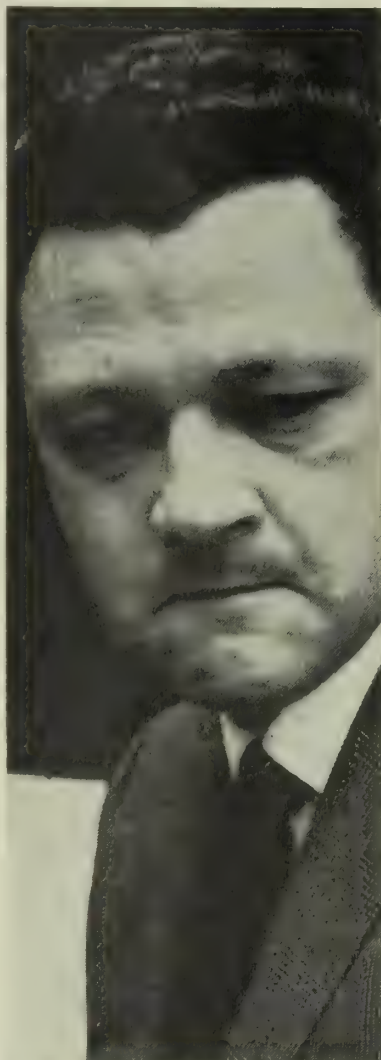
FSN also paid \$100,000 to Riter & Co.; Equity Research Associates received from it an option for 750 shares of Four Seasons Franchise Centers; and ERA also received \$40,000 from Walston & Co., which got \$74,000 to place notes and warrants of FSE. Argus Corp. received a \$100,000 finder's fee in helping place the \$15-million overseas issue.

Four Seasons tried to get as much money as fast as possible from institutions through package deals, combinations of borrowings sweetened with equity kickers. It used the same technique to an even greater extent in its subsidiary investments. This allowed heavy borrowings at below-average costs and terms. Good news was steadily forthcoming from former president Jack L. Clark, a great salesman, who stepped down last May.

Clark and other big Four Seasons stockholders have hefty paper losses now as compared with what they had at the top of the market. But they also have hefty amounts of *cash*. Clark had long since sold several hundred thousand shares—which cost him approximately \$200,000—for more than \$10 million. Other officials of the company and several partners of Walston & Co. also did well when they sold a part of their holdings.

In its time Four Seasons had quite a "story": Medicare, leverage, smart management; it was supposed to be a company designed for the Seventies.

Anybody notice how people aren't very interested in "stories" these days? And how many investors, big and little alike, have started reading those footnotes in the annual reports? ■



Jack L. Clark, 44, who, nine years ago was "scrubbing nursing pans," had his sights set on developing a nationwide chain of nursing homes and child care centers in relatively short order. By zealous salesmanship he temporarily convinced everyone—until tight money, sky-high construction costs and the collapse of the franchising boom overtook his dream.

Faces Behind the Figures

Skip the Charges

HE STILL HAS the stately office overlooking Park Avenue, the office with the grandfather clock, the wood-burning fireplace, the inlaid desk. From it he can see the half-billion-dollars worth of prime real estate he once directed. But Alfred E. Perlman, former Penn Central president and one of the great railroaders of our time, has no duties. He is merely sitting out the last six months of his contract with the now-bankrupt Penn Central.

Perlman at 67 is the most tragic figure in this tragic episode. From the start, he opposed merging his New York Central with the Pennsylvania. Once the merger went through, he was blocked at every turn by former Pennsy men when he tried to apply the techniques by which he had so effectively upgraded the old Central. Relegated to vice chairman from the presidency last year, he watched in anger and dismay as the Penn Central railroad sank into bankruptcy.

The old Perlman temper is ever near the surface, but he tries to be philosophical now. In the past he

was never tactful in his criticisms of ex-Chairman Stuart Saunders, the Penn Central board or of PC's former financial czar David Bevan, whose myopic policies helped the railroad go broke. But no longer. He prefers to dwell on his rise from an MIT-trained civil engineer to head of the Central—and on the crisis facing *all* the railroads today.

"All that stuff in the papers about bad management, about diversion of assets, is beside the point," he says. "The basic problem was that the Penn Central has all the goddam ills of all the railroads put together. Serving cyclical industries. Big passenger deficits. Regulation that wouldn't let us raise rates as fast as costs. The Government pouring money into other forms of transportation."

Can the PC be saved? Perlman thinks so, on five conditions:

- 1) That it get bankruptcy trustees who understand the business.
- 2) That it get a top-notch railroad man to run it—"And I mean run it without interference."
- 3) That the unions cooperate in reducing PC's work force.
- 4) That the Government assume



Perlman of Penn Central

rail passenger losses and let the roads dump money-losing branches.

5) That the trustees can raise money: \$150 million to repair PC's rundown properties, and much more to buy needed equipment.

"I don't care what anybody says, this railroad could be a damned fine property," Perlman says. "We're not asking for handouts, just some of the same breaks the airlines and truckers and barges get. We need some understanding from Washington and the public—not more charges and countercharges." ■

Efficiency Experts

THE OLD-TIME movie moguls never worried much about art or literature. "Give 'em what they want" was their motto, and for three decades they prospered—until television did them in. Family-operated Emery Roth & Sons is to architecture what Louis B. Mayer and Jack Warner were to movies, grinding out office buildings the way Hollywood ground out movies. Last month, two Roth brothers, Richard and Julian (founding father Emery died in 1947), and a son, Richard Jr., launched their 100th major

post-World War II office building, on New York's Third Avenue.

While they have played a major part in remaking the New York skyline, no one, least of all the Roths, would claim that they have done much toward making New York a more handsome city. Quite the contrary. Ada Louise Huxtable, *The New York Times'* architecture critic, decries what is happening architecturally to the city, by saying derisively, "New York is a Roth City."

To those who object that the 100-plus Roth buildings are sterile boxes, Julian replies: "What can you really do with a building when

all it requires is a basic office window module 12 feet high? Builders keep coming back to us because we've never left them out on a limb or broke them." He claims to be bringing Lower Manhattan's \$600-million World Trade Center in right on the mark in spite of skyrocketing construction costs.

Agree with him or not, nobody can argue that the Roths aren't giving the customers what they want. In a time of curtailed construction budgets and tight money, Emery Roth & Sons currently has 19 New York building projects in the works at a total cost of \$402 million. ■

The Roths: Richard Jr., Julian and Richard Sr.



Step by Step

LEE A. IACocca, the man credited with the successful Mustang and Maverick cars, seems headed for the presidency of Ford Motor on the installment plan. Ever since Semon Knudsen was unceremoniously fired by Chairman and Ruler Henry Ford II last September, the No. Two spot at the No. Two automaker has been open. Instead, Ford appointed three group presidents. Iacocca, the most powerful of the three, is president of North American automotive operations, which accounted for about two-thirds of last year's record \$14.8 billion in sales. Last month, Iacocca also became chairman of the newly formed Ford Marketing Corp., a wholly owned subsidiary.

Though only a paper corporation, Ford Marketing is big and important. It is taking over all sales operations of the Ford and Lincoln-Mercury divisions as well as those of the Autolite-Ford Parts division. As chairman, the tough and



Iacocca of Ford

shrewd Iacocca has greater control over sales, advertising and dealer relations. Meanwhile, the divisions themselves appear to be withering away; already, manufacturing and engineering has been taken from them and set up as separate, centralized operations.

Curiously, Ford announced the new marketing corporation only in a short, routine press release. Indeed, many Ford executives were puzzled by both the meaning of the new operation and by the way in which it was announced. But it was clear, however, that Iacocca, the 45-year-old son of Italian immigrant parents, had moved up another notch. This could well prove to be another deliberate test by Henry Ford II to see if Iacocca can handle the Ford presidency: This fall Ford is scheduled to introduce the Pinto, a smaller-than-Maverick subcompact, and also open contract bargaining with the United Auto Workers. Success with either or both could cut Iacocca into the job that he so obviously wants. ■

Old Presidents Never Die...

If they are named John L. Burns, they don't even fade away. Burns, now 61, has been vice chairman of Booz, Allen & Hamilton (1942-57), president and director of Radio Corp. of America (1957-62) and chairman and chief executive officer of Cities Service Co. (1966-68).

Burns left RCA in a highly publicized dispute with strong-minded General David Sarnoff, then RCA's chairman. From there he went to Cities Service and left there, too, although more quietly, when the board wouldn't let him diversify as widely as he wanted.

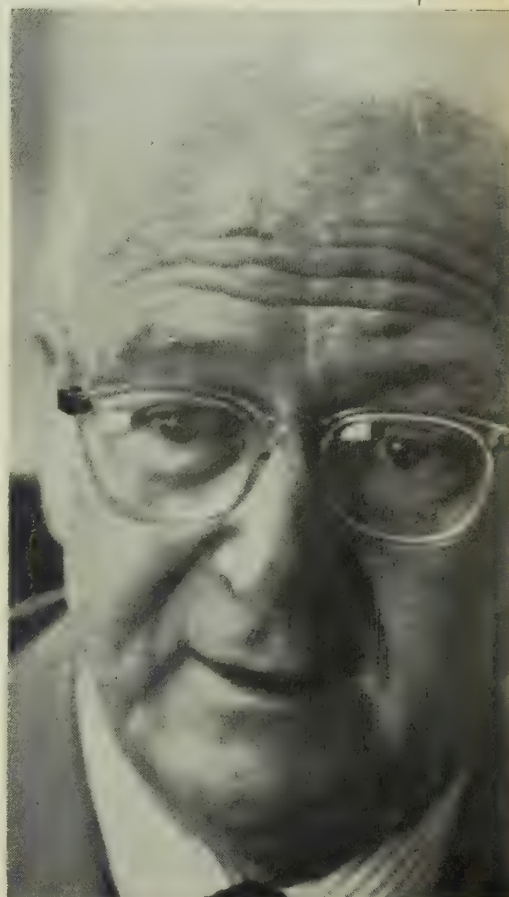
So now, Burns isn't a boss anymore. But he still commutes from his Connecticut home to an office in midtown Manhattan. From there he manages a wide range of interests. He is director of such major companies as Studebaker-Worthington and Babcock & Wilcox. He has interests in a few Florida orange groves and in an oil distributor in Connecticut. One of his big passions these days is a little Chicago firm, the three-year-old Medequip Corp., of which he is a stockholder. Medequip makes and installs complete computerized centers for automated health examinations.

Burns says Medequip fits right into "the total systems concept" he originally had in mind at RCA for tying together communications, control and computation equipment. Burns is also involved in two other small medical outfits related to Medequip. On the side, he was one of three investors who recently sold the Nassak diamond at Parke-Bernet for \$500,000.

Looking back over his own 35 years teaching about business at Harvard, consulting to it and running it, what is one of the most important lessons Burns has learned? That big business has a distressing tendency to smother the entrepreneurial spirit. "The entrepreneurs in big business all tend to be way up top; you don't get enough of them further down. That's why some smart young competitor running his own show can often run the big company right off the track in the smaller segments of its business.

Interestingly, Burns doesn't think this is all bad. With a kind of rough justice, he says, it solves, better than the professors and the politicians can, an old antitrust problem:

It encourages big companies to stick to what they can do well, and constantly spawns aggressive young companies to do the rest. ■



Investor Burns

Still Making Waves

As a syndicated maritime columnist, salty-tongued Helen Delich Bentley lambasted everyone in the industry as she saw fit. But as Federal Maritime Commission chairman, isn't she displaying the prudence befitting an office with regulatory responsibilities?

Hardly. "American shipowners and unions are so busy cutting each other's throat," she says, "that they're missing the big picture. Very few of them are putting their energies in the right place—into the world shipping boom that's passing most of them by."

FORBES' question had centered on the enormous legal bills many U.S. shipowners are running up squabbling over rate and other applications to the Federal Maritime Commission. (A recent container-ship takeover proposal involving SeaLand and U.S. Lines is already over 3,000 pages of transcript.)

"We've got to find ways of simplifying so much of this red tape," says Bentley of her own agency. "This country loses business for the most idiotic reasons. Other countries have a single throughbill of lading; for Americans to ship a cargo from Peoria to Stuttgart, Germany takes miles of paperwork."

She wants to eliminate red tape



Bentley of Federal Maritime Commission

on the waterfront, too, including petty restrictions over containership loading. "This year I'm hoping my good relations with the unions will mean something. They've got to see what's at stake. The days are gone when the world bought in America for lack of anywhere else to go. We've got to start feeling hungry."

This preliminary jawboning may just be a warmup for what she sees

as a really tough task: "Next year, for the first time since 1948, this country will have longshoremen's contracts on both coasts expiring. You know what that could mean."

It could mean that Helen Bentley, once described as "a temper with a quarter-inch fuse," will have to talk some hard sense into an industry where subsidies have all too often stifled self-reliance. ■

Don't Call Us. . .

"We believe in God. We work like hell. Thank you. Goodbye." That's not what Kenneth G. Herrick, 49, president and chief executive of Michigan's Tecumseh Products, actually told us, but that's what his "public relations" man said Herrick would say if he were willing to talk with the press. Which he isn't.

Herrick doesn't believe in talking about his company with outsiders. Not that he has anything to be ashamed of. Tecumseh is by far the largest producer of compressors and condensing units used for cooling in refrigerators, room airconditioners, dehumidifiers, water coolers and residential air-conditioning.

Tecumseh's earnings last year shot up 37% to \$19.7 million as sales went from \$329 million in 1968 to \$420 million. It has averaged an impressive 20% return on capital over the past five years, putting it ahead of International Business Ma-



Herrick of Tecumseh Products

chines and not far behind Xerox in profitability. Chances are that Tecumseh will buck the trend of most corporate earnings with another good gain for 1970.

Nor does Herrick have to fear that someone will come and take all this away from him. He and his 80-year-old father and the family own 51% of Tecumseh's 1.8 million shares, \$100 million worth.

So why the taciturnity? Replies a company spokesman: "Look, we're just doing our thing out here. What in the world do we have to gain from bragging about it? We have no stock to sell. We have no desire to do anything that will make our stock more attractive. And we don't have any consumer products. We submerge our identity completely in the favor of those people who buy our product."

We'd hate to see that attitude catch on; it would make our job at FORBES pretty difficult. Still, you can't argue with the figures. ■



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This was recently underscored in the data on Public Activity Involvement just released by the 1970 Simmons Study.

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	% <i>FORBES</i>	% U.S.
Voted in an election	94.5	76.5
Written to editor of a magazine or newspaper	27.9	10.3
Addressed a public meeting . . .	48.8	18.7
Taken an active part in some local civic issue	38.4	16.1
Written to an elected official about some matter of public business	38.6	13.2
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- How much are we producing? (Federal Reserve Board Index of Industrial Production)
- What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders of durable goods related to inventories)
- How intensively are we building? (Dept. of

Commerce private nonfarm housing starts)

Consumption

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

Income

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



Should It Be Bonds Or Stocks?

THIS is a time when most investors should be doing more thinking than taking action. The reduced volume on the New York and American stock exchanges suggests that is exactly what they are doing. The future environment is not yet clear, so there is plenty of time to find ways to best meet it.

Lately the public has been showing more interest in bonds than in stocks, and much "stock money" has been going into bonds. One broker tells me that he sold more bonds in the first six months of 1970 than he sold in all of the 40 years he has been in the business of serving investors. These new bond issues, yielding anywhere from 9% to 11%, have been attracting about as much money from individuals as from the institutions. For many years prior to 1969, the bond market was almost exclusively an institutional affair. Individuals did not buy bonds.

If investors successfully make money in bonds (I'm not talking about convertibles, just straight bonds), the new interest in debt securities is likely to be more permanent than transitory. If you are able to get a yield of 9% plus a capital appreciation (in dollars) of

5%, that's an effective return of 14%—which is about as good as you do in equities after you average the bad years against the good years and reckon in your mistakes.

As for convertibles, I don't think most of them are currently as attractive as straight debt issues. You almost always get a lower income return on a convertible, quality considered; and most converts are not of AAA or even A grade. Some of the convertibles issued in connection with the 1966, 1967 and 1968 expansion of conglomerate companies really are nothing but low-grade speculative common stocks. One of the problems in selecting convertibles at present is that so many of them were spawned in a bull market when stock prices were high, and the conversion privilege is of distant or of purely academic worth. There are some good ones, but you must hunt to find them.

Savings Up

One of Wall Street's favorite indoor sports involves trying to guess what will happen to interest rates. Some think the demand for funds will be so strong, and the supply of new savings will be so limited, that interest rates

cannot fall, may in fact even rise. These people are making the common and traditional Wall Street mistake of thinking that a trend once established will go on forever. I believe that natural economic law already is working against higher interest rates by discouraging borrowing and encouraging saving. Figures show that the percentage of national income "saved" has already begun to increase significantly, and spending for capital improvements is being cut back.

We should be mindful, too, of the political implications of high interest rates. High interest rates are inflationary, since they increase the cost of almost everything. This generation of voters is not illiterate in economic matters; many people know that scarce and expensive money has been the warp and woof of the Administration's anti-inflationary policy; they have firsthand knowledge that the policy has worked better in the stock market than it has at the supermarket check-out counter. Washington is already making credit more readily available, and has ceased to do things to make it more tight and more expensive.

There is, it must be recognized, one potent argument against bonds. The lender does not get as much buying power back at maturity as he has lent. In an inflationary economy (and we still have one), the buying power of the dollar lent is higher than the buying power of the dollar the borrower returns. If inflation proceeds at the annual rate of 4%, and you lend money at 9%, your real return is something like 5%. It follows that even a 9% or 10% return on bonds is not as lib-

Mr. Hooper is associated with the New York Stock Exchange firm of W. E. Hutton & Co.

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eral as it looks. It is partly fictitious.

The problem, of course, is what type of investment may be better. Two or three years ago everyone said common stocks. Then there was a shortage of equities and a surplus of cash; today there is a surplus of equities (too many "homeless" ones) and a shortage of cash. Then there was great speculative enthusiasm; today there is disenchantment and disgust. Then the economy was booming; today earnings are slipping and there is at least moderate business contraction. In short, common stocks are far cheaper than they were, but the influences working for higher prices are infinitely weaker.

It is regrettable that so many people always think in terms of price, and so few think in terms of value. Unfortunately, there is a tendency to measure investment success entirely in terms of price rather than in terms of how much you get for your investment dollar. Historically, I suspect that bonds are now cheaper than stocks, even though stocks look very cheap when you compare prices with those prevailing a year or two ago.

Historically, too, it is more normal for stocks to sell at seven to 12 times earnings than at 15 to 40 times. Logically there should be some relationship between interest rates on bonds, and price/earnings ratios and dividend return on stocks. If interest rates and bond yields are high, yields on stocks should be high too. A 7% return on *Standard Oil of California*, for instance, looks very good until you see that you can get a return of better than 9% on a debenture of *General Foods* with an AAA rating.

This column thus far has been trying to make the reader think more than it has been telling him what to do. This is a time when there is enough room to think. Neither the stock market nor the bond market is likely to run away in either direction this summer. Larger advances and larger declines are both likely to be abortive.

If you want me to guess, I would say that there is a good possibility that we have seen the high on bond yields, but that AAA bonds are unlikely to sell to yield less than 7.5% or 8% during the next year. I would also guess that before October the stock market may test the May lows (in the DJI), perhaps going through them, but not by any important margin. I see this summer a very, very dull market, one which probably will slip back a little when it looks best and go up a little when it looks worst.

Since I am one who was "sucked in" to *Penn Central* when the stock was very high, it is doubtful whether I should comment too much about it now. I do feel, however, that the

Penn Central incident is a monument to incompetent management. It is *Penn Central Transportation*, a 100%-owned subsidiary of *Penn Central*, that is in receivership, not *Penn Central* itself. This transportation subsidiary, however, owns 100% of the stock of the *Pennsylvania Co.*, which in turn owns most of the nonrailroad assets, some of which have been "hocked," directly or indirectly, for the benefit of the railroad.

If the reorganization of *Penn Central Transportation* proceeds along the lines of most previous railroad reorganizations, and there's no good reason why it should not, it will take years to get the company out of the courts. This will be the biggest, the most expensive and the most complicated railroad reorganization ever.

Of course, there will be other bankruptcies; but, outside of the conglomerates, these probably will affect only smaller companies. The idea that *Chrysler* has been in serious trouble, I think, is absurd. I think there will be numerous smaller receiverships, many of them in glamour companies of recent vintage. This is all a part of cleaning up the bear market debris.

Poor Earnings Reports

Stock-market sentiment during late July is sure to be flavored by poor second-quarter earnings. I doubt whether the third quarter will be much better, but I don't think the market will be as vulnerable to poor third as to poor second-quarter results.

In significant circles there is a much better feeling about the trend in short-term money rates. This is especially good for *Federal National Mortgage* (32), which has been split 4-for-1. Fanny Mae's second-quarter results, however, will be very sour.

One of the fallen angels which may be getting interesting is *Control Data* (35). The company is expecting a better third quarter, and hopes to break even in the computer division this year. Earnings from the Commercial Credit division should enable CDA to show \$2.50 a share or more if undiluted by computer losses. . . . Lower cocoa prices should help *Hershey* and *Peter Paul*. . . . If *Polaroid* can earn \$2.25 or so this year, the stock (around 54, down from a high of 145%) should be interesting. It is entitled to an above average P/E ratio, not only because of the excellence of the unique product but also because of the extreme strength of its financial position. . . . The best quality values in conventional stocks continue to be within the oil industry. They offer low labor costs, high asset values, an industry that continues to grow, along with good income returns. ■

STOCK ANALYSIS

By Heinz H. Biel



Shock Treatment

Not all the aftereffects of the Penn Central collapse are bad. It is, of course, a tragic spectacle to see a giant fall, a giant which had survived wars and depressions and, since 1848, had never missed a year paying a dividend to its shareholders. Yet, there are some beneficial results of this event, too.

Everyone, from the President down to the smallest investor, was shaken out of his lethargy. Suddenly it had become glaringly apparent that the situation was serious, damned serious. I think we should be grateful that the Administration's plan to guarantee an emergency loan to the Penn Central fell through. First of all, such situations should not and cannot be patched up with a bandage. Second, it isn't the government's responsibility to bail out the banks, other creditors and the shareholders. In a free enterprise system those who want to reap the rewards must also be prepared to accept the risks.

Checking Contagion

What is most important is that Washington has been alerted to the acute dangers of a major liquidity crisis. Insolvencies can be contagious. It is high time to guard against an epidemic which may not discriminate between good guys and bad guys. The Federal Reserve acted with commendable dispatch to strengthen the banking system's ability to lend money to deserving borrowers. The Administration may yet have to create a new rescue agency, perhaps along the lines of the old R.F.C. (Reconstruction Finance Corp.) which had been quite successful in avoiding even greater disasters in the 1930s.

The shock treatment should also prove beneficial to bankers, conglomerators, money managers, investors and, last but not least, security analysts. It is fairly simple to dress up an *income account* and make it appear that a business is enjoying good profits and a healthy rate of growth. It is far more difficult to make a *balance sheet* look better than it is.

In previous columns in FORBES I had warned investors not to place unlimited faith in reported earnings. They can be finagled. A balance sheet,

too, can be manipulated, and most items are of dubious reliability, but there are two positions which can be trusted: *debt* and *cash*. These an accountant can certify without reservation, and it is precisely these two items which can get a company into trouble. Thanks to Penn Central everyone will once again pay close attention to these old-fashioned facts.

The stock market, I fear, still has not established a reliable bottom, a firm basis for a sustained recovery. Day after day we witness huge block transactions, and while there must be a buyer for every seller, it is clearly evident that the sellers are the initiators of these transactions. It is equally evident that some institutions are taking gigantic losses. This in itself is very sad, of course, but the possible side effects should not be overlooked.

Is the Risk Out?

Having sizable investments in IBM and similar super-blue-chip growth stocks has been *de rigueur* for all self-respecting portfolio managers for many years. Because of capital gains tax considerations these positions were largely "frozen," and this in turn created an artificial scarcity with the result that prices of such stocks were driven to levels which were difficult to justify on fundamentals. Now this situation has changed. Once large losses have been realized in positions that have gone sour, investors can afford to take profits in stocks which had appreciated enormously in recent years, and which even now show big capital gains (viz the Dreyfus Fund's investment in Polaroid). This unfreezing of old positions may still prove to be an unsettling market factor as long locked-away blocks of stocks come on to the market.

The continuing price erosion which is not fully mirrored in the blue-chip-dominated DJI, has driven the great majority of stocks to levels where you begin to wonder whether there is still much risk left on the downside. This applies even to troubled *Chrysler* which may be sick, but hardly on the deathbed. (This, however, does not apply to Penn Central stock which statistically is overpriced in relation to some of the system's *bonds* which are selling in the teens.)

A multitude of pretty good stocks are now priced at seven times earnings or less, and unless the entire economy goes into a tailspin, these earnings are not about to collapse altogether. In fact, the belt-tightening efforts which any well-managed company has instituted in recent months, should begin to show results before long on the profit-and-loss statement.

The risk of a tailspin has diminished, I believe. The Fed's monetary policy has become distinctly *reflationary*. Short-term money rates already have come down significantly, and even long-term interest rates seem to have peaked out last month. There are also signs, quite faint so far, to be sure, that the *rate* of inflation is diminishing. Furthermore, the Administration by now is not only alerted but alarmed, and elections are less than four months off.

Living with the Unreasonable

Many people are concerned about the forthcoming contract negotiations with the United Auto Workers. Demands, presumably, will be "unreasonable," and there is a threat of a strike. But this we face every few years. We have to live with it, and the timing may be propitious rather than otherwise. We can also worry about many other things. There could be major unrest in the cities this summer. Cambodia may collapse and the Near East can explode any time. All this is not news, and the stock market in general would seem to reflect the prevailing apprehension, if not dejection, quite adequately. I don't think that investors should become unduly despondent at this stage.

Attracted by unprecedented yields, some investors are discovering the bond market. If income is the primary objective, nothing at present can surpass good bonds, especially tax-exempts. However, don't let us go overboard. Take *American Electric Power*, for example. This good utility stock now sells around 22 and the \$1.64 dividend rate yields nearly 7½%—only 1½% less than prime bonds. It must be noted, however, that AEP, a steady dividend payer since 1909, has increased its dividend rate in every single year over more than two decades. Isn't it reasonable to expect that dividends will continue to rise in the future, even if not in *every* year? The best rates on bonds, on the other hand, are fixed and will not rise. Therefore, unless the whole economy goes to pieces, a stock like AEP will be a better income producer over the years than a 9% bond. At less than half its peak price of a few years ago, this stock now sells exactly at ten times earnings for the past twelve months. ■

Mr. Biel is a partner in the New York Stock Exchange firm of Emanuel, Deetjen & Co.

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By John W. Schulz



Counting On The Fed Again

THE MARKET'S behavior since late May bad as it is, probably is no worse than could have been expected. After the worst panic since 1962, and the greatest destruction among equity values in over two decades, investor confidence needs repeated doses of adrenaline over a protracted period of time if it is to regain most of its former vigor. In other words, the market's attempt to build a broad base from which to stage a sustained, major-trend recovery seems bound to be lengthy and sometimes painful. The effort has only just begun, and the setback from the exhaustingly spectacular early June rally reflects, naturally, a still great residue of worry over the outlook for success.

This skepticism seems closely linked to the apparent absence of any consensus about prospects for business and earnings in the next six to nine months. Many observers believe the economy is about to bottom and corporate after-tax earnings will be on the upbeat again come autumn. But just as many now seem certain that business will not turn around until late this year and that profits will not improve until the first quarter of 1971. Both schools of thought can summon about equally convincing documentation for their respective views, with the result that, in a post-panic market climate, both seem to lack credibility. It may be at least another month or two before the business statistics can become more clearly persuasive one way or the other. Meanwhile, investors are reluctant to assume that the deep drop in stock prices has overdiscounted the worst.

In this setting few can now see why the stock market should stage a big, sustained advance during the months ahead, and the number of those who anticipate another decline to much deeper bear market lows has been growing. The implied preponderance of essentially bearish expectations—also typical of incipient base building—could at this time be a prime source of encouragement for the contrary-opinion analyst. But hard technical evidence in support of minority optimism has yet to materialize. The overall price movement could provide

a first vital clue by successfully testing the Dow's May 26 lows (631.16-627.46), i.e. either by refusing to register new DJI lows or by failing to stage another wide, panicky decline if those lows are broken under pressure from adverse news.

Meanwhile, no big buildup of latent technical strength is as yet visible in most of the areas where it should appear as a new major base unfolds. A significant rise in short selling by odd-lot customers may have begun late last month, but at presstime this trend was still too young to be impressive. Moreover, short selling by round-lot customers seems to have subsided sharply in the second half of June from the record levels reached in late May. True, the mid-June NYSE short interest total was up substantially from mid-May, but it was equal to only 1.36 times average daily trading volume for the reporting period, too low to be regarded as technically constructive. Besides, much of the increase was probably pinched out by covering purchases after mid-June, so I would not expect the July short-interest report to provide much technical encouragement either. That, however, could stimulate a fresh bulge in round-lot customers' short selling over the next month or two, which would make a desirable, perhaps indispensable, contribution to the lengthy base-building process I'm envisaging.

Hoarding Cash

An essentially similar contribution of latent technical strength on the mutual fund sector also may take a few months to materialize. Due mainly to the sharp drop in stock prices, the funds' collective cash reserves rose to a record 10.1% of their total net assets at the end of May. But at \$4 billion these reserves were only \$200 million higher than in January 1969, early in the bear market. Moreover, the funds' aggregate net inflow of new cash during May was negligible. So it seems necessary to expect that the funds will, as a group, be hoarding cash in the next several months, either by staying largely on the market's sidelines or by being net sellers of portfolio stock holdings (as apparently they were in May). The resulting accumulation of idle buying power could, in time, be-

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come tantamount to a massive short interest which would strengthen the market's overall technical position and should help complete a major base structure, as in late 1962 and 1966 and in the spring of 1968.

For now, there seems to be only one major area where a big increase in latent buying power has already taken place. By the end of May, margin account customers of NYSE brokerage firms had sold enough stock, on balance, to pay down their aggregate indebtedness to a level some \$2.5 billion under the June 1968 peak. At the same time, the cut in Federal Reserve margin requirements two months ago restored their collective potential purchasing power by over \$2 billion to about \$7 billion, the highest since July 1968 when the Dow was fluctuating around 900. With stock prices now substantially lower, even a minor fraction of this \$7 billion could, if mobilized, be a decisive supporting element during the base-building period.

A Shot in the Arm

But what could stimulate active new demand for common stocks from individual investors—and from institutions presumably not cash-hungry, such as pension funds and perhaps also bank-managed trust funds—at a time when there is still wide disagreement over whether a general earnings upturn is due in three months or in six? As I see it, the answer to that question hinges mainly on whether fears of an escalating liquidity crisis can be allayed. To many minds the possibility of such a crisis now looms as the major reason for expecting another deep bear-market collapse.

For reassurance, investors must look to the Federal Reserve Board. Since early this year, the Fed has taken a series of crucial steps to promote new money growth and to ease the tensions stemming from the brutal credit squeeze it engineered during the second half of 1969. In another step late last month, the central bank moved promptly and, it seemed, successfully to stave off a money-market crisis that might otherwise have been sparked by the Penn-Central's bankruptcy. At that time, the Fed increased the availability of short-term bank credit and actively prodded its member banks to make loans available where needed to prevent a chain reaction of bankruptcies. The next big step in the same direction could be a reduction in member banks' reserve requirements, potentially a powerful shot in the arm for the stock market because it would increase the supply of bank credit still further and so tend to lower short-term and long-term interest rates alike. ■



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June 22, 1970

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THE MARKET OUTLOOK

By Sidney B. Lurie



Some Underlying Pluses

BASICALLY, the test of any argument is price. Even the best investment can be a poor speculation if the price is too high. Conversely, a poor speculation can be a good investment if the price discounts all the foreseeable depressants. It seems to me that substantially all of the obvious speculative excesses have already been purged from the marketplace. Furthermore, well-financed backbone companies in traditional industries are selling at prices that are in tune with this year's realities and demonstrably cheap on the basis of their "normal" earning power in more prosperous periods.

In regard to my first point, I believe there is reason for speculative interest in *Control Data*, now selling around 35, which is a fraction of the highs accorded during the speculative boom in the computer stocks. For one thing, it seems to me that the Commercial Credit division—whose earnings will be up some 10% to 15% this year, and which could grow another 10% to 15% in 1971—alone is worth perhaps \$30 to \$35 per share of *Control Data*. If memory serves me, the company paid about \$45 a share for Commercial Credit when its earnings were well below this year's level. Secondly, although 1970 is a problem year for the computer industry and *Control Data* in particular, I believe the computer operation will be profitable in the second half in contrast to losses in the first half, and the full year might approach break-even results. In total, I can visualize *Control Data* reporting consolidated earnings of about \$2.25-per share this year as against \$3.19 in 1969, and there is a possibility of a sharp turnaround in 1971. All of which suggests that the stock has bottomed.

At a Realistic Price

As for my second point, I'm intrigued with *Bendix Corp.* (now selling around 21, paying \$1.60) on the grounds that the decline from the 1967 high of 57 apparently recognizes the possibility that earnings for the fiscal year ending next September may be in the \$2 to \$2.25 range as compared with \$3.42 per share in fiscal 1969. Secondly, with the company

having steadily increased its penetration of the automobile equipment market and several important new products likely to be on the cars of the Seventies, a modest pickup in automobile production next year could mean a sharp increase in this division's earnings. Thirdly, the company's rapidly growing international division will be consolidated this year and in the process add to earnings. I can see the possibility of a sharp earnings rebound in fiscal 1971.

Another area of speculative interest stems from the fact that this has been an era of private readjustments apart from the overall cycle, a fact which brings to mind *International Minerals & Chemicals* (around 10). While earnings for the fiscal year ended last month may only be about 25 cents per share as against the 9 cents per share (before extraordinary charges) reported in the previous fiscal year, the significant considerations are more than the fact that the stock sold at 50 and above several years ago. Despite overcapacity, there has been a decisive turnabout in the fertilizer industry in the past year, with both volume and prices improving. Current fiscal year earnings were reduced by a loss in the MSG operation (best known to the consuming public as "Accent"), but this division should be in the black in the coming fiscal year. With a good deal of capacity having been closed, the high cost of borrowed money resulting in lower inventories, and demand continuing to grow, the industry environment has improved for the coming year.

Do these capsule illustrations mean that new buying interest can be attracted at a time when it's easy to emphasize the immediate negatives and eliminate the potential positives from consideration? Philosophically, we all know that successful long-term investment policy is as much a business of anticipation as it is recognition of current unknowns. In a sense, it can revolve more around questioning the prevailing popular view than blindly accepting the obvious evidence.

Illustrative of the point, all the indications support my view that industry's capital spending boom has peaked, that the trend is downward. While this means that a stimulating

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force is being removed from the economy, the implications may not be as severe as one assumes. For one thing, a decline in capital expenditures will help ease inflationary pressures. And a somewhat similar situation came in to being 13 years ago, but the economy nevertheless remained relatively prosperous. In short, while I believe the economy will show a smaller rate of growth in coming years that it has in the recent past, the downward capital spending trend need not in itself spell an overwhelming depression.

A Profits Rebound

In somewhat similar vein of thought, some compensation can be found for the profit-margin squeeze, which has now become so obvious to so many. In the past decade, corporate before-tax profits on average equaled 10.3% of our gross national product even though hourly wage rates have steadily trended upward. Pre-tax corporate profits have increased sharply in the first recovery year following each post-war recession. All of which suggests that the physical volume of the nation's business is the key to the level of corporate profits. Thus, if business activity improves next year, today's cost-cutting moves could be reflected in a surprising profits rebound.

The physical volume of business may also be the key to the fear of a liquidity crisis that feeds on itself. Part of today's liquidity problem reflects the level of corporate earning power, which in turn is dependent on production volume. This doesn't mean that young and/or marginal companies won't have difficulty in financing growth from here on out. Further, the current recession will highlight the weaknesses of companies poorly financed in the past. But the problem could be more one of an isolated than a general nature. The increase in the nation's money supply, plus the Federal Reserve Board's determination and ability to avoid a massive liquidity crisis, suggest that the strains eventually may lessen.

All this is not meant to imply that the current speculative defeatism is a major error or that a new major upswing is on the near horizon. My point is that some of today's problems may be exaggerated, and some underlying pluses may be overlooked. For example, logic suggests that the worst of inflationary price trends may be over. Logic also suggests that the peak of the interest rate cycle is at hand now, partly because inflationary expectations have cooled, partly because the trend of capital spending is downward. And both factors are an important part of the equation that *eventually* makes the overall stock trend. ■

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STOCK TRENDS

By Myron Simons



A False Sense Of Guilt

WITH the market retreating, we in Wall Street smear ashes on our heads. *Mea culpa*. We confess. It's our own fault. We were overspeculating. We deserve our lumps. But please don't make the punishment too severe. And we promise to behave next time.

It may be true that overspeculation eventually gets punished. But before we bend over for the spanking, let's take a good look at how bad the speculation really was back in those lovely days of 1968. Because I think that we'll find that our sin was really not so much our enthusiasm in the bull market, as the incredible way in which we allowed ourselves to panic in the winter and spring of 1970.

One of the best measures of speculation is price/earnings multiples. If they're so high that it takes dreams and not just earnings to justify them, then sooner or later someone gets left holding the bag. How inflated were the multiples in 1968? To be realistic, it's the multiple of projected earnings, not that of last year's earnings, that counts. So, let's assume that we have a perfect security analyst, one who can tell us in June what the earnings will be for the year that won't end until December. Let's also assume he's always right to the exact penny.

Okay. Now how do we decide whether P/Es are too high or not? One sure way, I think, is to find out what they were near the bottom of the market in June 1962. They certainly weren't too high then, were they? The market was down 22% and the P/E—based on what were to be the year's earnings—was just under 16. In fact, prices were so low that they were the springboard for an advance from 578 to nearly 1000 on the Dow Jones industrials. So the June '62 lows are a good yardstick for lowness in P/Es.

Using that yardstick, what do we find about blue-chip stock prices on the eve of the great 1969-70 bear market? We find that most blue-chip P/E ratios were not at all high, not in comparison with what they had been at the so-called bottom six years before.

Here are the facts: Of 30 DJI stocks, only 13 were selling at higher P/E multiples in June 1968—not quite at the top of the market but at a healthy

913—as compared with its June 1962 low. Of these 13, five had lower earnings in 1968 than in 1962. (Lower earnings tend to increase P/E multiples because the stocks of most great companies tend to anticipate long-term earnings potential, not temporary dips.) So actually, only eight of the 30 Dow Jones stocks sold at higher P/E ratios in 1968 than in the depressed market of 1962. The P/E was a little under 16 in 1962, and just about the same in mid-1968. Sure their prices were up, but only up about as much as earnings. Hardly evidence of wild speculation.

Panicky Investors

Of course, the Dow Jones stocks and other blue chips and semiblu chips are only a part of the story. Every bull market has plenty of stocks that run up because they *appear* to have extraordinary growth, or because the concept of their companies and their businesses seems exciting, or because somebody sells somebody else a bill of goods. Or because of overimaginative bookkeeping. But I'm not talking about these stocks. I'm talking about the big stocks and the big companies that still account for the biggest chunk of stock market money. The simple fact is that these stocks were not inflated as they were in the late 1950s. This indicates to me that the terrible decline of the spring of 1970 could be justified only by major economic problems. Naturally, it's possible that such crises are just around the corner, but not according to the majority of economists. It's pretty generally thought that the worst of the economic decline is over; and even more important, that the Government's policy of restraint seems to have given way to one of gradual stimulation.

Today, the P/E for the Dow, based on probable 1970 earnings, is just 12.6, well below the bottom of 1962. Now, this *could* mean that the market is forecasting economic disaster and that is why it won't put a fair price on current earnings. Or it could mean that investors simply panicked—as they did in 1962 but on a vaster scale. I think the latter is the case. The economic decline seems to be running its course. Washington's policy of tight restraint seems to be shading over

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into a policy of gradual stimulation.

The outlook now is for a gradually improving economy, and a continuing inflation, although at lower rates than the runaway of last year. So it's my guess that when we look back at the spring of 1970 six months from now, we'll wonder why there was such an urgency to convert equity positions in sound stocks into cash. If we do any breast-beating then, it will probably be for cowardice in mid-1970, not for exuberance in 1968. It will be because we didn't take advantage of the opportunity that every panic since World War II has given the investor.

To take advantage of a recovery market, it's important to form a strategy. The hardest part is the beginning—facing up to one's losses. Except for tax considerations, you should forget what you paid for a stock. Nothing should remain in your portfolio if there is something better to own. This demands a review of your objectives, the relationships you want to keep between cash, bonds for income, and stocks and the outlook you have of the future. Remember, it's the future you are investing in, not the past; what's important is what you believe a stock will sell for, not what it once sold for.

Stocks Worth Buying

At present levels the stocks of a great many large companies seem worth buying because of their strong positions and their potentials for advancing earnings in a resurgent economy. When a recovery from a bear market takes place, it often starts with quality stocks as large conservative funds of money are reinvested in the market. I am talking about stocks like IBM, Standard Oil of New Jersey, Burlington Industries, Ford and a horde of blue chips.

And there's the home-building industry. The country needs more housing, and the Congress and various federal agencies are trying to find ways to help make funds available to fill the needs. My favorites in the group are Kaufman & Broad, Masonite, Wickes and Evans Products.

There are social demands that must be met. Witness the recent congressional override of the President's veto of the hospital bill. Increasing demand for health care should help companies like Pfizer, Warner-Lambert and Richardson-Merrell.

What I am urging is staying in the market but ruthlessly pruning your holdings. This demands a great deal of self-discipline. It means resisting the urge to panic and to freeze up. But then, making money in the stock market is seldom easy, except near the top of a bull market when profits come easily. But they vanish easily, too. ■

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CHAIRMAN'S CHAIR

By Fred C. Foy



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One day a document is signed and two companies become one company. Right then, one set of managers become unmanagers. Not that the newly unmade managers realize it at the moment. They learn it later.

More often than not it comes as a shock because almost all major mergers or acquisitions are made on the premise that there will be no change in how the business will be run, or by whom. But it doesn't work that way. This is too bad, because it should work that way.

Business suffers when men who have developed competence as managers suddenly become unmanagers, unsure of what they can do, trying to guess in advance someone's reaction to their next move, or worse—waiting to be told what it's going to be.

Last year, according to *Mergers and Acquisitions*, 1,710 businesses, each with assets over \$500,000 were acquired by new owners; 1,710 bosses lost that last word, and more than 1,710 people working for them lost the chance to become boss later.

I predict that in five years or less more than half of those bosses will be gone. Why? The answer depends on the kind of acquisition, was it illegitimate, semilegitimate or legitimate?

Illegitimate acquisitions are made simply to add quick volume to the acquirers' sales, for access to cash or assets, to make a quick buck in the market or to avoid being grabbed by someone else. In these, the old management doesn't stay around very long and usually isn't happy when it does.

The *semilegitimates* are smaller and medium-sized, wholly owned companies, the product of one man's ingenuity, imagination and hard work.

As the owner gets older his tax lawyers start working him over. They argue that the company's book value may not be the Treasury's idea of its going value in his estate, that there may not be enough cash in the till to pay a whopping estate tax, that his safest course is to trade his assets for

marketable securities and that this can be done better by a live owner than a dead one.

So a trade is made: The old owner and the new agree the business will be run with no change in management or policy. For a couple of years there is no change. Then "sunitis" sets in.

Sunitis is a disease transmitted by a wife infected by a couple of million dollars in dividend-paying stock. She simply can't see why the old man should keep working when they could run to the sun and relax on their dividends. The average man's span of resistance to sunitis is rarely more than a couple of sloppy winters.

If sunitis doesn't get him, the flood of new reports and paper work usually is enough to make the old boy throw in the sponge in a couple of years anyhow.

How about the *legitimate* acquisition? I define as legitimate an acquisition where a going, growing business marries for money to expand, for an assured raw or semifinished material source, for needed additional management skills, market access or research and development backup.

Don't Pull Up, Push Down

This is absolutely the worst situation to unmake managers. Unlike the smaller one-man show, these companies usually have a lively management group that has learned to work well together—creative builders, decision-makers. More important than what they've done is what they can do if the new owners will let them.

But will they? Not if they run a "pull-up" show.

A "pull-up" show is any company run by a management convinced that they and only they have been granted the omniscience, the talents, the ability to make surefire decisions. In these cases top management pulls up into its own hands all the decision-making. Their idea of a good manager is a guy who will do what he is told.

I'm constantly amazed at the companies that acquire good officers and then promptly try to make enlisted men out of them. Of course, the best of the newcomers don't put up with it.

Actually, what I'm talking about is not purely a product of merger. These pull-up situations afflict a good many

companies right within their own organization. The cure is to push power down into the organization. Smart bosses try to create new managers, not unmake existing ones. They know that people are more important than organization structures. They create new decision-making jobs rather than destroy old ones. They push down, they don't pull up.

Thus the smart boss realizes that there are times when decision-making should be vested even in individual men, maybe a key salesman or a researcher interested in creative, profitable problem-solving—not in supervising others. This done, next comes the problem of tying each job into the information and responsibility flow in a meaningful way. This is hard work, but worth it at every level.

One word of warning. The push-down system, the spreading of decision-making, is toughest on the boss and his next string. They have to work hard at it, really believe in it. The system calls for communication and understanding at every level. It demands tolerance for differences of opinion. It calls for acceptance of occasional mistakes, because only mutual trust and understanding will set a younger, less experienced man on fire, and the fire becomes hotter as mistakes diminish and experience takes over.

In short, the Big Boss must learn to keep his hands off the wheel a good deal whether he's dealing with the capable heads of newly acquired businesses or with talented juniors. In Koppers we used to expose newly hired graduates to a couple of months in each department and division until they "knew every part of the company" (which is more than the chairman ever did). One year, as chief executive I got a group together after six months.

Boy! Did I meet misery! These boys told me they had gone to college to learn, that they came to Koppers to work and hadn't done any yet and that they had reached the collective conclusion that you could learn better by doing than by watching. That was when we learned how far the push-down system has to go down if it is to work best. We decided never again to hire a college graduate we couldn't immediately put to work at something worth doing.

If we want to get the best young people from college into business, let us show them how early they can tackle problems, make decisions, make something happen. It's the same with keeping experienced executives in acquired companies. Give them a chance to make a contribution. You could put it this way: He bosses best who bosses least. ■

Mr. Foy, a guest columnist, has retired as chairman of Koppers Co. He joined the company in 1948, became president and chief executive officer in 1954, chairman in 1955.

The Funds

Still Playing the Convertible Game

LIKE other income funds that invest for yield rather than capital appreciation, Decatur Income Fund has fared much better than the so-called go-go funds. Its net assets per share have declined by only 10% during this year's market crash.

But Decatur also performed well during the rising market in 1967 and 1968. Its value per share rose 28% and 21%, respectively, which is quite good for a fund whose main goal is income, whose primary appeal is defensive. How? By switching, starting in 1966, from straight bonds into the convertible debentures and preferreds that became so abundant during that period. Convertibles, it appeared then, had both the income appeal of bonds and the appreciation potential of common stocks, and Decatur traded in them rather actively, tending to take profits quickly rather than hang on.

Profit Up, Yield Down

"If you buy a convertible at par with a 6% coupon and it goes to 180, your current yield is 3%,"

says Decatur's chief investment officer, Arnold M. Ganz. "So you sell it and recycle the money into some new prize at a 6% coupon. You take your profits and you ram your income up."

That was fine in 1967 and 1968. But since then convertibles have been dealt a double blow as both stock and bond prices have fallen sharply. Presumably the convertible game is over for Decatur.

But portfolio manager Lewis C. Sheffey says no. In fact, Decatur still has about 35% of its money tied up in convertibles. "I think there's a good chance the convertible play will recur," argues Sheffey. "We could have a change in interest rates or a change in market direction."

Of course, Decatur isn't in all the same convertibles it held during the 1967-68 period. "Last year we got out of high-multiple stocks like Hilton and Jim Walter and convertibles like Woolworth preferred and LIN Broadcasting," says Sheffey. "We shifted into financial-type companies, like the mortgage in-

vestment trusts. And we also went into housing- and construction-oriented companies, usually through the convertible debenture route. In other instances, we shifted from a common into convertibles to improve the yield."

Another Double Play

Decatur is betting that interest rates will drop, sending finance and construction stocks up and boosting bond prices. Says Ganz: "If our portfolio gets revalued to a 4.5% yield from a 6% yield, it's got to be worth 25% to 35% more." To some investors this is a gamble worth taking: Decatur has attracted some \$37.5 million in fresh money during the 12 months through May 31 of this year, raising its total assets 23% to \$87.8 million despite the slight decline in its per-share asset value.

What if interest rates stay at today's levels or go still higher, which is what many experts are predicting for the next several years? Stock and bond prices could continue to fall. And if that should be the case, the capital gains Decatur shareholders have come to expect might be harder to come by.

It's Catching

THE MUTUAL FUNDS are also experiencing a money squeeze these days, the severest they have ever faced. Officially, fund sales still exceed the redemptions of shares—by \$675 million to \$607 million during April and May, the two worst months of the market crash. But that sales figure includes reinvested dividends and capital gains in ad-

dition to new shares sold. The chances are that there was actually a net outflow of money, especially in May when reported sales (including reinvestments) exceeded redemptions by only \$4 million.

Not every fund is having trouble, of course; many still are selling far more shares than they are redeeming. Wise funds prepared for a potential squeeze by building big positions in ultraliquid stocks like American Telephone and General

Motors. This gave them stocks that could be readily sold if they needed cash to meet the redemption demands of shareholders.

Predictably, however, the funds with the most liquid positions have had the least pressure on sales and redemptions. The go-go funds that are loaded up with hard-to-market securities in little-known companies are in the worst shape.

But the real irony of the funds' liquidity squeeze is that redemptions themselves are not the biggest problem. Cash-ins by fund shareholders in the first five months of this year were actually 18% lower than in the same period last year. The problem has been sharply lower sales. Volume was down 38% in the first five months of 1970. And small wonder, with stock market prospects uncertain and all the recent publicity about the abuses and excesses of many funds during the late departed bull market.

History shows that redemptions always have been relatively low in declining markets (see table). For example, in 1962 redemptions fell a bit from 1961's total. In 1966 re-

Redemption Tale

Period		Net Assets Managed (billions)	Sales (including re-investment) (billions)	Redemptions (billions)	Net New Money (billions)
April-May	1970	\$39.8	\$0.7	\$0.6	\$0.1
1st quarter	1970	47.9	1.4	0.8	0.6
	1969	48.3	6.7	3.7	3.0
	1968	52.7	6.8	3.8	3.0
	1967	44.7	4.7	2.7	2.0
	1966	34.8	4.7	2.0	2.7
	1965	35.2	4.4	2.0	2.4
	1964	29.1	3.4	1.9	1.5
	1963	25.2	2.5	1.5	1.0
	1962	21.3	2.7	1.1	1.6
	1961	22.8	3.0	1.2	1.8

The Funds

demptions held even with 1965's. They declined in 1969 although stock prices were falling all through the year.

"Fundamentally," explains Dreyfus Fund President Howard Stein, "fund shareholders are buying a savings program. They're long-term investors. Also, there generally is no margin pressure on fund shares."

Perhaps the biggest reason, however, is that the fund owners simply can't stand the thought of selling at a loss. They wait in hope that a new bull market will bail them out. That's just what happened in the past—in 1963 redemptions jumped 36%, in 1967 they were up 35%.

And Then Some

There's no reason to expect that redemption history won't repeat itself when the stock market turns around again. And it might repeat in spades. The high hopes generated by the funds that promised super performance has left more than the usual number of disillusioned fund stockholders who need bailing out. "Take a go-go fund that went up 50%," says Affiliated Fund President Robert S. Driscoll. "Everybody bought it after it went up, thinking it would go up another 50%. Of course, it didn't; it went down. Then they say: 'When I get even, I'll get out.'"

This potential for large redemptions makes solving the industry's current sales problem all the more important. "There's a hesitancy on the part of investors to purchase all securities," says Stein of Dreyfus "Until the atmosphere begins to clear, we'll continue to see this hesitancy." Affiliated's Driscoll blames part of the sales decline on the capital problems of brokerage houses (see p. 46), which sell about 60% of fund shares: "I think the brokerage people are immobilized because of this and aren't doing all the things they should be doing—such as selling mutual funds."

The real challenge for the funds when the market does turn, therefore, will be to get sales rising fast enough to get themselves back into a solid net sales position. Stein and Driscoll, ever the optimists, are sure this will happen. But it will mean convincing people all over again to buy funds rather than, say, bonds or putting the money into savings accounts. It might be a tougher job this time around. ■

READERS SAY

(Continued from page 11)

Third and Lexington Avenues. Thus, instead of owning 100% of 1.5 million square feet, Tishman will own 50% of 3 million square feet.

Our primary reason for entering this venture was not financing by an offshore fund, but to be in a position, as managing partner of this two-building project, to control what we regard as the choicest major new office in midtown Manhattan.

—ROBERT V. TISHMAN
President,
Tishman Realty & Construction
New York, N.Y.

Who's Got the Lead?

SIR: I noted with interest your recent editorial suggestion (*Fact & Comment*, May 15) that we get the lead out of our gasoline. We took the lead out in 1915. Since World War II, in fact, we have been the only company in the U.S. marketing a lead-free gasoline—our unleaded Amoco Super Premium. This is sold at our stations in 25 states.

Earlier this year, some of the major automakers announced that their 1971 models would have low-compression engines capable of operating on a 91-octane unleaded gasoline. On Feb. 10, I announced that we would have such a fuel available in our nationwide markets as soon as cars requiring it came on the market. This was the first such commitment on a nationwide basis by any oil company.

—JOHN E. SWEARINGEN
Chairman,
Standard Oil Co. (Ind.)
Chicago, Ill.

Kimberly Moves Up

SIR: I particularly noted the FORBES 200 Research and Development listing (May 15), which indicates Kimberly-Clark expenditures of \$2.49 million for 1969. A review of the questionnaire which we returned to you indicates that we erroneously reported the expenditures for one division only, and that in fact, the total for the year should be \$12.12 million. This would have placed Kimberly-Clark in the 96th position rather than 177th place as reported.

—DEAN J. HEWITT
Director of Public Relations,
Kimberly-Clark Corp.
Neenah, Wis.

Better than the Market

SIR: In your article "Is the Tweed Suit Coming Back?" in the June 15 issue, you said the Oppenheimer Fund "was about as go-go as you could get" and that it is a "fund that has done well in up markets but has been frequently clobbered in down markets." For each year of the decade since the inception of the Oppenheimer Fund, the market declined

in four years while the fund was down in only two. During the eight full years when the fund outperformed the market, it averaged 11.9% better than the Standard & Poor's 500 stock index annually. During the two years where the S&P did better than the fund, the difference averaged 7.7% per year. Perhaps these figures might lead to a different interpretation of our performance results.

—LEON LEVY
President,
Oppenheimer Fund
New York, N.Y.

When Down Is Up

SIR: Your July 1 issue in the article concerning convertible bonds has what I am sure is a slip of the pen. I refer to the sentence: "He also stands to make good money if interest rates were to go up." A holder of a bond will make good money if interest rates go down, not up.

—HYMAN C. GROSSMAN
Brooklyn, N.Y.

SIR: Is my economics degree getting old and rusty for the Seventies that it no longer understands which way [interest rates] are supposed to move?

—ALAN H. WILEY
St. Louis, Mo.

Readers Grossman and Wiley know their bonds. The word should indeed have been "down"—Ed.

And Justice, Too

SIR: Congratulations on your powwow about a mandatory retirement age for senators and congressmen (*Fact & Comment*, July 1). Shame on your defeatist attitude that this cannot be brought into practice. And why not include the most arrogant—the Supreme Court Justices?

—W.G. KAMMLADE
Urbana, Ill.

On a Roll of the Dice

SIR: [On the cover of your June 15 issue] there was a little mistake. It caught my eye immediately. It is impossible to get the combination you have on either of the dice.

—ROBERT F. NOVAK
Corona del Mar, Calif.



Reader Novak certainly has a sharp eye. We used real dice (unloaded, of course) in the cover photograph, but, inadvertently—in an effort to get the most effective cover design—the color transparency was reversed. This gave the mirrored, upside-down picture—Ed.

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THOUGHTS... ON THE BUSINESS OF LIFE

You need not tell all the truth, unless to those who have a right to know it all. But let all you tell be truth.

—HORACE MANN

It is a curious paradox that precisely in proportion to our own intellectual weakness, will be our credulity as to the mysterious powers assumed by others.

—CALEB COLTON

The quest for riches darkens the sense of right and wrong.

—ANTIPHANES

It is astonishing what force, purity and wisdom it requires for a human being to keep clear of falsehoods.

—MARGARET FULLER

Be wiser than other people if you can; but do not tell them so.

—LORD CHESTERFIELD

Men, such as they are, very naturally seek money or power; and power because it is as good as money.

—RALPH WALDO EMERSON

The love of learning and the love of money rarely meet.

—GEORGE HERBERT

Some persons profit by lying convincingly; I, by telling the truth unconvincingly. It is not so difficult as you might suppose, for in this world, where actually nothing is commonplace, people believe only in the commonplace, that which they are accustomed to see.

—ROBERT L. RIPLEY

A truth ceases to be true when more than one person believes in it.

—OSCAR WILDE

What right have we to pry into the secrets of others? True or false, the tale that is gabbled to us, what concern is it of ours?

—EDWARD BULWER-LYTTON

Secrecy is the soul of business.

—SPANISH PROVERB

B. C. FORBES

John D. Rockefeller once said: "Next to knowing all about your own business, the best thing is to know all about the other fellow's business." Information can mean money.

A wise man sees as much as he ought, not as much as he can.

—MICHEL DE MONTAIGNE

One part of knowledge consists in being ignorant of such things that are not worthy of being known.

—CRATES

Curiosity is looking over other people's affairs and overlooking our own.

—HERMAN L. WAYLAND

He that does not know those things which are of use and necessity for him to know, is but an ignorant man, whatever he may know besides.

—JOHN TILLOTSON

The most common sort of lie is that by which a man deceives himself: the deception of others is a relatively rare offense.

—FRIEDRICH NIETZSCHE

"Know thyself" is a good saying, but not in all situations. In many it is better to say "Know others."

—MENANDER

Seeking to know is only too often learning to doubt.

—ANTOINETTE DESHOULIÈRES

The first point of wisdom is to discern that which is false; the second to know that which is true.

—LACTANTIUS

It is not the man who has little, but he who desires more, that is poor.

—SENECA

Information appears to stew out of me naturally, like the precious otter of roses out of the otter.

—MARK TWAIN

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A Text...

Sent in by Richard J. Obrecht, Ashland, Ohio. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

He that gathereth in summer is a wise son: but he that sleepeth in harvest is a son that causeth shame.

—PROVERBS 10:5

AUGUST 1, 1970 / SEVENTY-FIVE CENTS

FORBES



The Billionaire Sealords

How They
Rule
The Oceans

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When they look at us, they see a little of you.



When Union Carbide sends its people to Asia, Africa, South America and even Europe, they represent a country as well as a company.

So while we're out to make money abroad, we're also out to make friends abroad.

Sometimes, it's as simple as knowing local customs.

In Singapore, our Eveready battery plant has a cafeteria that serves three different menus. To meet the dietary, ethnic and religious needs of our Indian, Chinese and Malaysian employees.

Othertimes, making friends and making money is a little more complex.

To mine huge manganese deposits in Ghana, we built a whole town. From the ground up. Later, we put a plastics plant in Ghana. And then a battery plant. And made even more friends.

None of this is our newest idea. It's something Union Carbide discovered long before international business was fashionable.

And it's all quite simple. Overseas, we're you.



THE DISCOVERY COMPANY
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You remember the country boy, directing the stranger, "You go down this road... no, that won't get you there. You go up that road... no, that's not it. You go —

You can't get there from here

Are we adult Americans any smarter?

"Stop inflation". (But raise my wages so I can pay these higher prices somebody caused.)

"We want peace". (But don't want to serve in nor pay for the armed services necessary to keep it.)

"We must have pure water and air". (What, *me* put up with a less powerful car, gray in my "white" clothes, higher taxes for disposal systems, slower population growth?)

"I demand safe streets". (But don't be unkind to these young criminals, rioters, vandals.)

"I want a guaranteed income". (Won't this country *ever* learn to stop operating at a deficit?)

* * *

Heaven seems so beautiful. But the path there is long and hard. Maybe we *can't* get there from here... until we're willing to *give* as much as we *get*.



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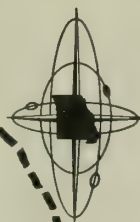
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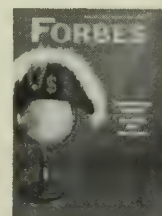
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PHOTO AND ART CREDITS: United Press Int'l, pages 15, 25 top, 36 right; Wide World Photos, pages 16, 24 middle and bottom, 25 bottom right; Surveyor Magazine, page 20; American Committee for Flags of Necessity, page 22; W.A. Sonntag, page 24 top; New York Times, page 25 bottom left; Roland Schoor-Pix, page 35; Ray Witten-Black Star, page 36 left; Rafael Macia, page 45 top; Dan McCoy-Black Star, page 45 bottom.

COVER PHOTO: Clayton J. Price

FORBES is published twice monthly by Forbes, Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office, New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.



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How to Make Up to 13½% on Your Savings or More— All Fully Insured

There are many things banks don't like to talk about. They don't like to talk about the fact that they do, indeed, pay interest rates of 8%, 10%, 13½%, and often more, to a select group of knowledgeable depositors!

What's the difference between these men and women and you? Simply this—that they know certain "inside" techniques of depositing and withdrawing their savings (all perfectly legal, incidentally) that you don't! And—therefore they earn two to three times as much interest on those savings as you do! Like this...

Would It Be Worth An Extra Ten Minutes A Month To You—To Bring Home Two Or Three Times As Many Dollars From Your Savings As You're Getting Today?

The procedure is simple. But to put it to work for you, tomorrow, you have to know these few "smart-money" facts:

1. Most thrifty people in this country today are actually losing money on their savings. The interest they get from a regular bank account is actually far less than the lost purchasing power that inflation cuts right out of their savings.

This is one of the great social tragedies of our time. It means that if you are thrifty and prudent in this country today, you are penalized. Either you are driven to speculate in the stock market, where you can be wiped out overnight. Or you try to secure safety for your hard-earned capital in a bank—and watch inflation turn your dreams of early retirement and financial independence into dust!

2. But you just don't have to accept these two tragic choices any longer! Now there is a Third Way to invest your money, that gives you the absolute safety you want, plus huge guaranteed returns that you may not even have dreamed possible before.

* Read What The Banking Industry Itself Says About This Startling Volume!

NEW BOOK COULD UPSET THE SAVINGS APPLE CART

TIGHT MONEY, Regulation Q, and the much-touted Age of the Consumer, are key ingredients in a flammable mixture about to be ignited by a book which could explode in the face of the commercial banking industry this year. This says:

"The millions of people who have saved a few dollars in the form of savings accounts and insurance have been prevented from gaining any profit from their investment—indeed they have been forced to accept real losses—by what amounts to government agency fiat. These depositors have contributed more, perhaps, to the growth of our economy than any other group, and it is unjust that controls apply only to interest rates to depositors, while there are no controls over the inflationary wage and price increases. Conditions permitting this 20 years of discrimination should be changed."

I am quoting from a book, titled, "Don't Bank On It! How To Make Up To 13½ percent and More on Your Savings—All Fully Insured."

The book is dedicated "to the members of the median income group, those truly forgotten men whose savings deposits make banking, as we know it, possible."

"Don't Bank On It!" may be coming out at an auspicious time, as the general public is becoming more aware of high interest rates, and, thanks to truth in lending, is being conditioned to look at rates of 12 or 18 percent as low. No doubt he'll soon recognize that 4 or 5 percent is peanuts.

About the Authors

Martin J. Meyer is president of the National Depositors Cooperative Association. He also serves as Vice President and Secretary of Intercept Tele-Communications, Inc., a new international cable and telegraphic interception and forwarding organization. Mr. Meyer has written numerous magazine articles on banking, thrift, and inflation.

Dr. Joseph M. McDaniel, Jr., recently elected President of the World Health Organization, was Secretary of the Ford Foundation from 1953 until his retirement in 1967 and Dean of the School of Commerce at Northwestern University. His distinguished career includes government service with the Economic Cooperative Association.

3. It is based on one simple fact: That most depositors are completely passive about where and how they save their money! They never take the one or two hours that are necessary to learn the "inside workings" of the banking system. Therefore, they never even hear about the "super-savings-accounts" that can yield them far more than ordinary interest on their money.

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The time required to read this book from cover to cover is approximately one weekend. Or, if you wish to skip the banking background at its beginning, it will take you about an hour or two to learn these "Active Depositing" techniques themselves. And once you learn them, from that moment on, you will be able to exploit every legal loophole in the entire banking system, including:

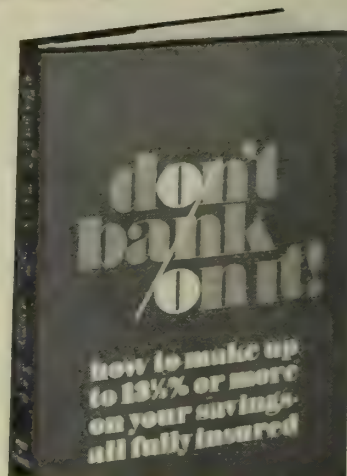
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How to make banks pay interest to you on money you don't really even have on deposit—on non-existent money—on money you have already spent! (And the bank loves you for it. Because, no matter how much you make, they make more! Page 143 shows you how.)

How your checking account can be used by you to earn higher interest than your present savings account.

Yes, how you can even earn high interest on your credit card! So that you are now earning in-



terest on other people's money—and spending it at exactly the same time!

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60 Fifth Ave., New York, N. Y. 10011

Paid Circulation Over 625,000

FOUNDED 1917 BY B. C. FORBES (1880-1954)

FORBES, AUGUST 1, 1970

Side Lines

Pix & Funds

SPECIAL issues or regular, getting the right photographs and art work is crucial to any story. Searching out pictures around the globe is demanding under any circumstances, but *FORBES'* Nikki Frost, right-hand gal to Art Director Ed Wergeles, had to do more than the usual amount of stone upturning for the current cover story on billionaire shipowners. Several are Greek, and the Greek Consulate in New York would not cooperate. "We don't want to upset anyone," explained a press officer. Nikki finally located a picture of rarely photographed Costa Lemos in England.

But her favorite story concerns Hong Kong. She asked the Associated Press bureau there to help secure a photograph of Chinese shipowner C.Y. Tung from any one of several Asian magazines. The AP replied that the magazines would not release them without Tung's OK. When Tung's New York man was asked for approval the next day, he had already heard in detail from Hong Kong what *FORBES* was up to. Did Nikki get her picture? See page 24.



Nikki Frost

THE SIGNS OF SUMMER at *FORBES* are that our computers are humming, our statisticians are bleary-eyed, and the first results are starting to roll in on our 15th annual mutual fund survey, which will appear in our next (Aug. 15) issue. The figures themselves are still too scrappy for us to pass along any advance tidbits. But they have already set us to musing over what a strange game investing is, in mutual funds as well as elsewhere.

For example, how do investors pick the funds they end up buying? While no one knows for sure, we *do* feel that the answer varies from time to time. For decades, fund investors were assumed to be buying a "cross section of American industry." But for some years now, until the end of the hectic bull market of the late 1960s, they seemed to be attracted most by so-called performance. That is, they increasingly preferred funds showing the sharpest yearly, monthly or even weekly gains in per-share assets, even if achieved by using letter stock and such corner-cutting devices.

This, of course, proved a sad mistake. But many of the people who still hold the shares of the go-go funds may be making an equivalent one. As we said in the mutual fund column of our last issue ("It's Catching," p. 71), many people may be holding their shares waiting for a comeback to let them get out without a loss. But many of the go-go funds have had to dispose of their more salable assets to cover redemptions; and it is unlikely that the now-deflated stocks left in their portfolios will be speculative favorites in any recovery. In fact, the next market boom will undoubtedly develop a brand-new crop of go-go funds.

This makes it all the more imperative for mutual fund investors to study *FORBES'* fund survey, with its built-in emphasis on consistency of performance in both up and down markets. The figures in the survey won't tell you everything that's important to know about a fund—such as, for example, the specific stocks in its portfolio. But its longer range view of performance in different kinds of markets will tell a great deal about the quality of each fund's management and the investments it makes. ■

Our import-export expert: New Orleans.

The Port of New Orleans is the second port in the nation and among the top five in the world in dollar value of foreign commerce and tonnage of total waterborne commerce. The towering International Trade Mart, New Orleans, oversees more than 5,000 overseas ships which call at the port every year. In addition to the United Kingdom, leading foreign nation customers include Japan, the Netherlands and West Germany. And the principal trade areas are Europe, Latin America and the Far East. Find out more about the changing Middle South—Arkansas, Louisiana and Mississippi. Get a full port report. Write: Middle South, Box 61000, New Orleans, La. 70160



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Trends & Tangents

FOREIGN

What's in a Name?

One of the oldest names in the automobile industry, Rootes (founded in 1927), is disappearing as fast as the sign painters can obliterate it. Chrysler Corp., which now owns the British company (makers of the Avenger, Hillman Imp, Alpine, Rapier, etc.), has decided to call it Chrysler UK. The change involves not only painting new signs but also printing new stationery and stock certificates, issuing new warrants, and putting new number tags on all cars. Chrysler is doing the same thing in Spain to Barreiros, which it also owns; and in France the name of a third Chrysler subsidiary, Simca, is expected soon to follow Rootes and likewise slated for oblivion.

Where There's Smoke

Americans are not alone in complaining that "nothing works anymore." The British Consumers' Association has just completed a survey of 1,451 of its members who own color television sets. In the past 12 months, 90% of the sets broke down at least once; 20% broke down five times or more. One in every 19 of the owners found smoke coming from his set; one in 40 reported an explosion. Despite this, the association reported, "members with color sets said they were definitely worth the extra cost."

BUSINESS

Bargain Rates

The falling stock market isn't the only factor that has caused executive unhappiness with stock option plans. So have the high interest rates that executives must pay to borrow money to buy their option stock. While corporations can't do much about the drop in their stock prices, they are doing something about the high interest rates. Some, such as Union Carbide, ITT and Lykes-Youngstown, are granting executives low-interest loans, say, at 4%, to enable them to exercise their options. Pearl Meyer, a consultant with Handy Associates, estimates that in 1968 only 15% of the top 500 companies had such loan pro-

grams. She predicts that by the end of 1970 some 30% may have them.

Put Asunder?

Time heals all wounds, apparently even those inflicted by the trustbusters. The 34 separate companies divorced from the Standard Oil Co. in 1911 have merged, acquired and consolidated back into 14 entities. Some of today's larger fragments include Mobil Oil, Atlantic Richfield and, of course, the Standard Oil companies of New Jersey, California, Indiana and Ohio (now a British affiliate). Yet the largest survivor—Jersey Standard—is one of the few that have not acquired any of the original 34.

Voice It

Marshall McLuhan will have a ball with this one: the talking letter. Actually, it's a cassette recording sent through the mail in a reusable plastic "envelope." Over 20 million Americans now have cassette player-recorders, and the number is growing rapidly. The cassette makers see servicemen abroad as potentially their largest market. A good player-recorder can be purchased in a military PX for as little as \$20, and servicemen in Vietnam (Continued on page 57)

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READERS SAY

No Speculator He

SIR: Whoever wrote "Like Moths to Flame" (*FORBES*, July 1), conveys only a very limited aspect of philately and does our avocation a distinct disservice. While it is true that the British Guiana was purchased by the head of a syndicate who openly stated that it was for "investment," most of the great classic rarities being offered annually are sold to connoisseurs who love and want them for their albums. The fact that they pay so much more today than did previous owners is due not so much to speculation as to inflation. Because a few—relatively extremely few—highly publicized stamps are being bought by uninformed or ill-advised speculators, it is completely inaccurate to infer that the stamp trade is similar to either the recent coin boom or tulipomania. Stamp collecting is at an all-time high in popularity throughout the world, which means that competition for the classics is keen and spirited.

—ERNEST A. KEHR
Executive Chairman,
Philatelic Press Club
New York, N.Y.

A Job Well Done

SIR: As the vice president of a new venture whose chief responsibility was to raise capital in a 60-day period during which time the Dow dropped over 20%, I can well appreciate the plight of the young entrepreneur. Although times like these enhance working for a large corporation, there is nothing to compare with the feeling one has when a new venture finally becomes operational.

—GERALD L. BENOWITZ
Vice President,
Mary Poppins Childcare Services
Atlanta, Ga.

The Deadly Parallel

SIR: Running Charles Rolo's column and Myron Simons' column on facing pages (*FORBES*, June 15) provided an excellent example of the old "deadly parallel." On the left side we read: "Don't assume the conventional blue chips will be the best vehicles to ride for the years ahead..." and on the right side: "What kind of stocks can be expected to perform best in a market recovery? ... First come the blue chips." And now the traditional editor's response can be either: 1) "Well, of course, in a sense they are both right. It is a matter of interpretation, etc." or 2) "This illustrates that our columnists are completely free to write..." and 3) "... we strive to present a diversity of opinion..." instead of—"Sure wish I knew what's really going to happen."

—COL. W.R. PERSHALL, USA (Ret.)
Atlanta, Ga.

Reader Pershall has given in example 2 exactly the answer we would have given—since it is accurate. However, we

certainly wish we really did know what is going to happen—Ed.

Once in a Hundred Years

SIR: Based on your criteria, we may have been a little premature; but we certainly agree this was a stock market "crash" (*Side Lines*, July 1). In fact, we decided to so characterize it almost a year ago when bond yields skyrocketed. For the first time since the days of Abe Lincoln savers are getting more than their share, and borrowers are getting less. I guess it is only fair that this should happen once every hundred years.

—PERRY F. WYSONG
Ft. Lauderdale, Fla.

A Soldier's View

SIR: I understand and appreciate your many views on youth, Vietnam, Cambodia, etc., but I think you are making one major error in not giving tribute to the great American soldier that has been here. I would hope that some publication would see fit to again write a story on the real soldier that is here—no marijuana, black market, club shakedowns, atrocities—but a story on the real gutsy, hard charging, proud individual who is our average infantryman today.

—COL. ELMER D. PENDLETON JR.
Vietnam

Moose Skinner's Blues

SIR: I am an engineer on the Alaska Railroad and I have never seen nor heard of a train stopping to skin a moose (*FORBES*, July 1 p. 17). Almost all moose hit by a train are usually hit in the middle of winter when the snow is deepest. When we do hit a moose, we notify the dispatcher via microwave radio, who in turn notifies the nearest section crew, which butchers the moose and loads it in box cars for shipment to local charities.

—ROBERT LOERZEL
Anchorage, Alaska

Who's That Lady ... ?

SIR: Re the female in miniskirt on page 98 of *FORBES*' June 15 issue. Creatures like that will never pass out of fashion. Will you accept an order for one now? Could we see more of the young lady?

—M. SCHUGAR
Detroit, Mich.



Reader Schugar wasn't the only one to place an order; surprisingly few recognized actress Britt Ekland—Ed.

The "Now" Phone

The 'Now' Phone.

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From drug control to MESBIC

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For example—we're funding a series of drug seminars, conducted in selected communities by the Institute for the Advancement of Criminal Justice, that are designed to tell how to cope with the drug threat. And we're sponsoring a Minority Enterprise Small Business Investment Corporation (MESBIC), in cooperation with the Commerce Department's Office of Minority Business Enterprise, to provide qualified minority businessmen with venture capital and modern management acumen.

ITT and you

As we continue to grow, our skills and resources create stepped-up competition in the fields we enter. More competition means more efficient use of money, manpower and material. And that means better products and services for you.

We're sorry that some of the great names in business from our original era are not around today or not doing so well as they were. But we'll always be grateful for what they taught us: that staying on top takes a lot of doing—and that survival, especially today, demands application of advanced technology and modern management techniques.

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So—Do it now.

UP IS DOWN

In the fight to curb inflation every shred of bad business news is happily hailed as a sign of some success.

We all knew the rate of inflation was getting out of hand.

We all knew the cure would hurt.

But now that the hurt is actually here, enthusiasm for the medication is diminishing. There are a few voices now

crying out that one can avoid the pain and avoid the hang-over by just staying high forever.

Fortunately, sense still prevails. A little pain now to avoid killing pain later.

But it may not be too long in the future before good business news is once again considered good news.

HAPPY HOLIDAY!

Building better mousetraps has generally been regarded as the sure road to business success. Holiday Inns proves the axiom anew.

It's been fun and faith-renewing to watch in recent years the bounding successes of this Memphis-born national—now international—innkeeping giant. Kemmons Wilson has done to motel beddingdown what Howard Johnson

did for roadside eating and ice cream.

It's funny, isn't it, how often we forget the appeal of courtesy, cleanliness and comfort in the services serving leisure-time relaxing as well as business-connected meetings and travel.

Holiday Inns have proven there is great profitability in the honest, intensive application of old axioms.

LET'S GET ON WITH IT

I hope a start at getting some oil out of the enormous Alaska field isn't indefinitely mired in a bureaucratic morass as a result of our national concern for the ecology. This concern must not be so misguided, misdirected, misused that it serves to stop economic growth, to bankrupt companies, to stifle new developments, new jobs, new horizons.

In fighting new pollution and stemming present pollu-

tion, exciting, sometimes costly means and methods exist and others will evolve. But blanket legislative naysaying to expanding power and energy sources is stupid, self-defeating.

With availability of Arab oil constantly more uncertain for the Free World, let the relevant Powers in Washington get busy on the *best* way to get at and get out Alaskan oil.

QUOTES

From the Rich File

Rich companies-owning Texan, John MacArthur, on whether he'll go public: "What would I do with the money, roll in it?" Same man, different subject: "If everybody goes to college, who's going to run the vacuum cleaners? Anyhow, I never went to high school myself."

That fabulous achiever, enormously wealthy Charles Engelhard, who among infinite other things owns one of the largest and most successful racing stables in the world, when asked about the impact of inflation: "The way I live, I really don't notice it."

On Advertising

Philip Dougherty, the Boswell of advertising, reported: "Asked why a nude was necessary in an airline ad, a spokesman for BWIA replied: 'We figured it would stop the average commuter.' So would a dum dum bullet."

On the Generation Gap

Tom Wolfe, who is to today's young what Boswell was to Johnson, mentioning the inability of some of us to bring his sympathetic understanding to the new generation: "I think the whole world must be blind not to see what I see."

Speaking about what the young are trying to say to the Generation-in-Charge, Tom Wicker writes in the *New York Times*: "We are challenged, not to *protect* our ideals and society, but to *realize* them."

From the Definitions File

There are derogatory designations for all groups and groupings. One oft used is Wasp, dictionary-defined as "A white Anglo Saxon Protestant." Observes author John Leggett, "A Wasp conceives of himself as an individual, not as a Wasp. Waspness is an exterior concept, existing in the eye of the beholder rather than the beheld. As a self-image it is amorphous: The Wasp is the farmer, the clerk, the waitress, the machinist, the schoolteacher—strangers, all, to privilege."

From our Mortal Whimsy File

Then there was the hypochondriac who could generate no sympathy while alive but had the last word by inscribing on his tombstone: "I told you I was sick."

From the Political Truth File

Queen Elizabeth's Prince Philip, when not Consorting officially unveils new monumental objects, dedicates what he has to and cuts ribbons and people who need it. Not long ago he officiated at the opening of a city hall annex in Vancouver with this pronouncement: "It gives me great pleasure to declare this thing open—whatever it is."

From our Sharp Tongue File

The heroine of Robin Cook's *Private Parts in Public Places* says of older men making passes at lassies: "It's always the same horrible crude approach, like an eight-engine bomber trying to land in a backyard."

THIS IS PROGRESS?

Now that it's warm and balmy (spelled bomby in some circles), we all tend to thirst more.

In that connection, sometimes my thoughts turn to milk shakes. Usually, only my thoughts.

Because a good milk shake is hard to find these days.

Remember when they used to be made by putting

scoops of real ice cream into the container along with real milk and real syrup? Not any more. In most places they just turn a faucet and out comes some icy thick slurp that bears no resemblance to the real McCoy.

This is just another example, like strawberry shortcake, where old-fashioned is better. Much better.

WHO GETS THE BEST?

Those who don't have to worry about the price—
Or those who do?

LEGAL PROS

Legalese is a language all by itself: often about as understandable as Senegalese to non-Senegalese.

Apropos of this, the other day the alert head of an im-

portant company made this wry observation: "If you had lawyers write, 'The Sex Life of Brigitte Bardot,' no one would be able to read it."

—MALCOLM S. FORBES,
Editor-in-Chief



In the last few months, we've discovered that working together works.

Once upon a time there were two paper companies. Great Northern and Nekoosa Edwards.

Then we decided to get together.

We knew that together we'd be a lot stronger. A lot better equipped to compete against the giants of our industry.

And we're happy to report that being together is working.

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We're not only the country's

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We're also the leading producer of papers for computers. And a major manufacturer of copier paper and special grades for the printing and publishing industries.

We're in more markets. If one of them is down, we have others to lift us up.

Our eight mills are now located in five states: Maine, New York, Georgia, Arkansas and Wisconsin.

We're even starting to cash in on each other's talents. Our research people are getting together.

So are our marketing and production people.

The more we work together, the smaller the giants seem to become.

If you'd like to find out more about us, write to Peter Paine, Chairman of the Board, Great Northern Nekoosa, 522 Fifth Avenue, New York, New York 10036.

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IN TIRE INNOVATION

*Michelin guarantee covers 40,000 mile tread life, defects in workmanship and materials and normal road hazards (excluding repairable punctures). Is limited to free repair, or credit or refund equal to original purchase price multiplied by percentage of guaranteed mileage not run (at Michelin's option), and is conditioned upon use with "Airstop" tubes (where applicable) and non-commercial use on passenger car or station wagon.

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Out of Control?

A good many people are saying: Don't worry, increased productivity will take care of those big wage increases. But will it?

CONVENTIONAL WISDOM, as preached by the Nixon Administration and by many economists, says: Don't worry too much about the big wage boosts; U.S. industry is working at only 78% or less of capacity; fuller utilization of plant capacity and closer reins on costs will enable industry to absorb the wage boosts and make reasonable profits without raising prices.

Conventional wisdom may be right. But an increasing number of smart businessmen suspect it may be wrong. Optimists say recent wage settlements are the crest of the inflationary wave, which will now recede. The pessimists think the recent settlements may be institutionalizing inflation.

As a case in point, the Goodyear Tire & Rubber Co. settled with the United Rubber Workers this summer for a 24% wage and benefits hike over three years. The settlement, valued at a record \$150 million, holds out no promise of increased productivity. Goodyear announced it was boosting tire prices by up to 6%, even before the shouts of rubber workers ending a seven-week strike had died out.

Note this: The 6% price boost is meant to cover only the first stage of the three-year wage boost. The increases due next year and again in 1972 almost certainly mean more price hikes. Far from slowing inflation, these three-year contracts seem to be building it into the economy. And they set a pattern that managements will be hard pressed to resist in future contract bargaining.

In a sense, it is hard to fault labor for wanting more. Certain unions have taken full advantage of a monopoly position to push wages to outrageous heights. For example, sheet-metal workers in the Los Angeles area, after only a one-week strike, last month got a wage boost that will bring weekly

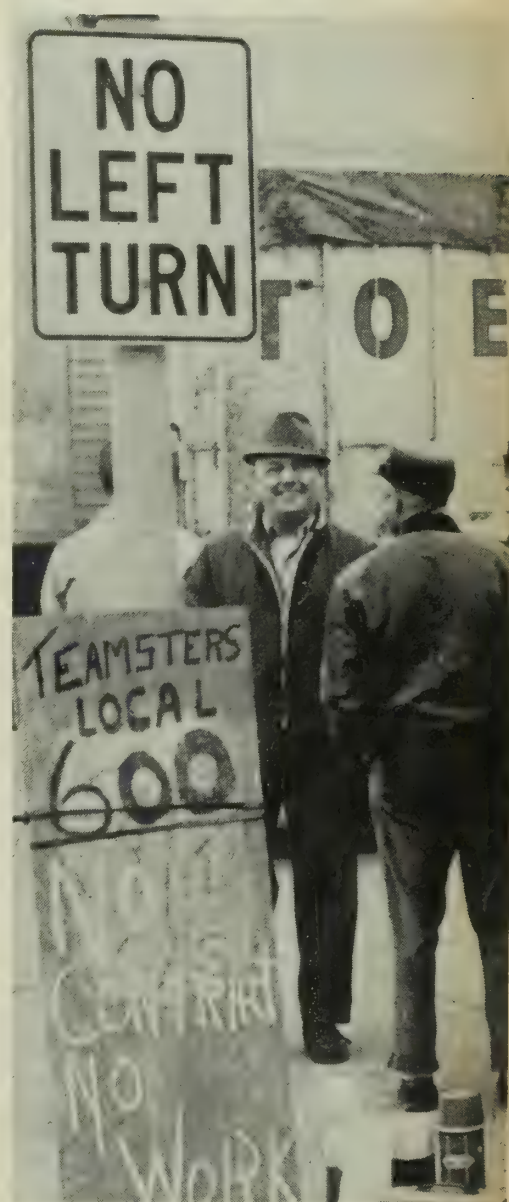
wages to \$438 by 1972. As a result of the revolt of the Chicago Teamsters, truck drivers will get a pay boost of 16% this year and will be making \$5.85 an hour by 1973—a gain of 46% over 39 months.

Under the circumstances, it's hardly surprising that the United Auto Workers doesn't think its current average hourly wage of \$4.03 is high enough. "They got theirs; we want ours" is the attitude and it's getting more widespread every day. An official of the Union of Electrical Workers says: "There's a rebellion on this question of wages. The 'catch-up' thing is getting worse." In this case, the catching-up doesn't have to do with relative wages; the average electrician now makes \$6.21 an hour.

There are two kinds of catching-up: with other wages and with the cost of living. Both forms of catch-up are particularly virulent right now.

The Bureau of Labor Statistics says wage settlements are the highest since they began to keep records back in 1913. Pacts are running at an annual rate of 8.6%, which is above last year's big average of 8.2%. And the contracts of twice as many workers—some 5 million—are due for renewal this year as compared with 1969. Another 5 million are set to get deferred increases averaging 24 cents an hour, or 5.7%, nearly twice the 1967 level.

The catch-up game is understandable, especially since U.S. wages have marched ahead 20% since 1965, but earnings measured in true purchasing power have remained nearly static. But the catch-up game is self-defeating. For a while at least, higher wages may buy more for the wage-earner at the expense of corporate profits and reinvestment. But when prices rise, the wage gains vanish. The fact is that business has only limited ability to pay



New Leverage. Union members are finding they can walk out and get more than their leaders bargained for.

higher wages at the expense of profits. Therefore, it's hard to see that record wages increases can do other than make inflation chronic. "Every day that goes by with these big three-year contracts," says economist Eliot Janeway, "freezes these pressures forward for another three years."

Yale Brozen, professor of economics at the University of Chicago points out: "Everybody behaves as if the profits of more than a year before are the determining factor in their bargaining, not those of the most recent three or four quarters." Even if wage increases are kept to a 7% rate this year, Brozen can't see how a decline of more than 15% in pretax corporate profits can be avoided. In short, the current dip in profits has hardly moderated wage demands at all.

Former Labor Secretary George P. Shultz, in an interview with *FORBES* just before he took over the new Office of Management and Budget last month, argued that businessmen ought to fight harder. "When you cool off the economy," Shultz says, "profits get squeezed, and that sends management to the bargaining table with more backbone than it would otherwise have. Of course, you get some tensions and strikes. But there are worse things than strikes," he says.

Many businessmen are not so sure. Could Chrysler with its debt load take a prolonged autoworkers strike this year? "Shultz is saying, 'You and him go fight while I turn my back,'" retorts a top manufacturing official.

Shultz feels that the free play of the marketplace, where unemployment is rising as the economy cools, naturally will tumble the wage-price spiral. Earl R. Bramblett, General Motors Corp.'s new vice president for personnel, sees such a view as simplistic: "You've got a floor under wages in the mass-production industries. This idea of the open competitive marketplace is very severely limited by binding wage agreements. Have you seen anybody cut wages recently?"

Only Way Out?

About the only remedy most everyone agrees might allay the frantic wage-price spiral, or what labor calls the price-wage spiral, is increasing the country's rate of productivity. Productivity had been expanding at a 3% rate in the U.S., but in the past nine months it has been stagnant.

Again, conventional wisdom has an answer, that the current economic slowdown and the attendant joblessness will in themselves raise productivity; people will value their jobs more highly and work harder. Employers will fight harder for efficiency.

Is it that simple? Some of the things

that have cut into productivity defy conventional economic analysis and seem rather to be rooted deep in present-day psychology and sociology.

Absenteeism, a growing problem, has doubled in some industries within the past five years. Some manufacturers are worried about growing violence within plant walls. Young workers who have no memory of hard times tend to demand big pay pacts in lieu of fringes, whether output is going up or down; they couldn't care less whether their employer makes a profit or not. Veteran labor leaders have less control over their members. Rebellious unions are rejecting contracts, sometimes generous ones, this year at a record rate of one in eight.

In part, it's a matter of psychology. Once a man considers a job to be his God-given right, he becomes more concerned with what his job can do for him than what he can do for the job. In part, too, it's a matter of elementary fairness. Construction workers make \$20,000 a year and up. Can any reasonable man argue that the New York hospital workers are overpaid by comparison at an average of \$132 a week—even though it took a 15% raise to get them there?

This catch-up trend is particularly strong in growing sectors of the economy where traditional measures of productivity simply do not apply; hospitals are an example. Another is government, the biggest single employer in the U.S. Government employees traditionally have been overlooked in analyzing labor and inflationary trends. This is changing swiftly. Nearly half—some 1.3 million—federal pub-

lic service employees are now organized. And most are further back in the wage catch-up line than their colleagues in the private sector.

Government unions do not usually have the right to strike. And while some, like New York City's teachers, have undergone painful illegal strikes, others have been getting settlements through other bargaining devices, such as the use of third-party arbiters. Arvid Anderson, chairman of New York's Office of Collective Bargaining, says that "such things as fact-finding, arbitration for nurses, firemen, etc., can be an effective means of bargaining. . . . This is going to have a profound effect on the private sector." Profound? Yes. Anti-inflationary? No.

Where's the Cause?

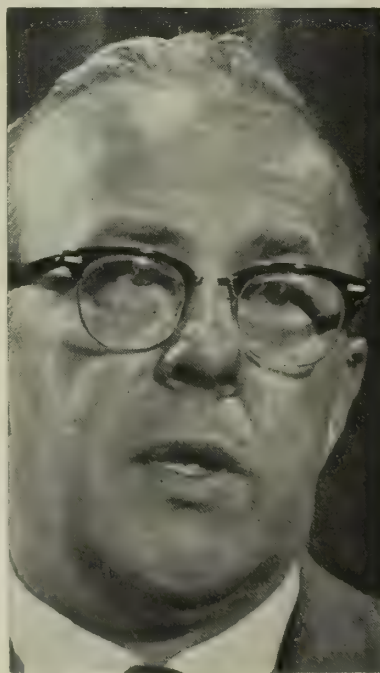
Top-ranking businessmen are still talking about a speech, little noted outside of a closed-door meeting, delivered at a session of the prestigious Business Council in May. It was delivered by Patrick Haggerty, the thoughtful chairman of Texas Instruments, on a subject near to every businessman's heart: productivity.

In essence, what Haggerty said was this: The root cause of inflation is that Americans are demanding more from their economy than the economy is producing. They are demanding not only more goods and services but cleaner air and better education. Raising wages, taxes and prices won't get these *produced*. They will only cause inflation unless at the same time the economy starts producing more—and not just the industrial segment of the economy. Education must become more productive, as must all manner of government and private services.

That really grabbed businessmen, and for good reason: One of the disturbing things about this year's big wave of wage increases—whether in private industry or in the post office—is that in very few cases have the increases brought any real increase in productivity, in output per man-hour. In fact, unions have increasingly resisted work-rule changes, even as tradeoffs for big wage boosts. The construction trades, although getting the biggest increases, have been most resistant to new technology.

It is this trend that could undercut all of the rosy economic forecasts now being bandied about—and businessmen know it. Some unions have learned to change with new methods of production, and some managements are beginning to understand how to handle better-educated yet restive work forces. But until productivity gains again come close to matching wage increases, it will be hard to bring inflation under control. ■

George Shultz



Another World

Can Hilton Hotels find happiness amid the neon lights and crap tables of Las Vegas?

AT LAST COUNT Las Vegas had 16,674 slot machines, 158 crap tables and 61 roulette wheels. It also has Howard Hughes, over 2,300 chorus girls, one of the world's largest neon signs and the world's largest resort hotel—the 1,500-room International Hotel opened last summer by Kirk Kerkorian.

Hilton Hotels Corp., at last count, had 39,456 bedrooms in the U.S., revenues of over \$240 million and earnings of \$16.9 million that have been growing at 30% a year since 1966. It has no chorus girls, slot machines, crap tables or hotels in Las Vegas.

Two separate worlds.

But when 42-year-old Barron Hilton announced in June that Hilton Hotels would acquire at least 50% of Kerkorian's International Leisure Corp., which owns and operates both the International Hotel and the older Flamingo in Las Vegas, he made it sound like the most natural union.

"Do you realize that Las Vegas is one of the major hotel cities of the

world?" he began. "Do you realize that over 15 million people stayed there last year? That's three-fourths of all the people who visited all of Florida. It's the entertainment capital of the world and it can be made the convention capital of the world."

There is more to Las Vegas than entertainment and conventions. The big lure is the gambling, which can net 20% and more. Barron Hilton believes he's getting in very cheaply and that it will prove doubly profitable if he can run the troubled International as efficiently as his other hotels.

Hilton has agreed to pay from \$18 million on up, or eight times International's 1970 earnings, for up to 50% of International Leisure. This is a great deal less than the \$60 million Kerkorian paid to build the International Hotel alone. Why so cheap? For one thing, Kerkorian is reported to be strapped for cash with over \$9 million in interest payments to be met and over \$70 million in short-term Euro-



dollar loans falling due this year, all incurred last year in connection with his acquisition of M-G-M.

But there are other reasons too. International Leisure's books show \$11 million in gambling receivables. In May, Hyatt Corp. looked at them and backed away only days after starting negotiations. "Yes, it's true about the receivables," says Barron Hilton. "Our auditors are going over them now." Now that the deal is going through, the question is how accurate auditors can be in checking such receivables. That's Hilton's gamble. ■

New Rules

Beatrice Foods outgrew Borden and Kraftco by acquiring and pooling. But what now?

MANY a conglomerate is going to be clobbered by the Accounting Principle Board's recently proposed ban on pooling-of-interest acquisitions where the acquired company is less than 10% as large as the acquirer. Nonconglomerates will feel the pinch, too.

Take Chicago's Beatrice Foods Co. Beatrice gets 78% of its \$1.6-billion sales from food and related products and services and can scarcely be called a conglomerate. It has achieved an excellent growth record—earnings up 138% since 1959—largely by acquiring and pooling small companies. Is it the end of the line for Beatrice, which previously could buy companies without having to write off the excess it paid above book value against earnings? Will it now be forced to cease making acquisitions and slow down to the snail-like growth pace of competitors Borden and Kraftco, whose earnings have risen by only 28% and 54%, respectively, since 1959?

William G. Karnes, Beatrice's 59-year-old president and chief executive, concedes the problem. "Obviously," he says, "it will have a slowing effect on acquisitions if we have

to capitalize and write off goodwill."

But Karnes does not admit his company's days of rapid growth are over. Five years ago that might have been a danger, but now, he says, Beatrice is diversified enough to produce internally the kind of growth that in earlier years forced him into acquisitions.

The trouble with Beatrice when Karnes took over back in 1952 was that its business was just milk, ice cream and other dairy products, an industry whose sales were growing at only 3% or 4% a year. Karnes' solution was to use the cash flow from these fast-turnover items, plus liberal doses of Beatrice stock, to improve his growth and profit prospects. He acquired his way into higher-margined grocery products (now 27% of sales) and still higher-profit nonfoods such as specialty chemicals, home and garden accessories, mobile homes and recreation equipment (now 22% of sales). As a result of that and steady internal growth, earnings have increased every year since he took over to \$53 million, or \$2.03 per share in fiscal 1969 (ended this past Feb. 28).

So Karnes now is confident that

even with fewer acquisitions he has positioned Beatrice well enough to double sales to \$3 billion by 1980 with little help from acquisitions. He is counting on his nonfood lines for almost half of that growth, from a current \$318 million to \$1 billion. But he also expects new products to help dairy sales grow 7% a year, or twice as fast as they have been.

Karnes has set some very tough goals, especially for a company whose earnings growth, after averaging 14% per year between 1962 and 1967, slumped to only 3% to 4% during 1968 and 1969. Karnes argues that the slump is temporary, the result of the now-rescinded income tax surcharge and inflation. "In dairy, bakery and some grocery items we simply weren't able to move our prices up fast enough to offset higher costs," he says. "Now we are increasing prices, and I expect our earnings should go from \$2.03 to \$2.20, or about an 8% increase, this year."

But the fact remains that the game has changed considerably for Beatrice. It must now try to produce internally the kind of growth it has counted heavily on multiple acquisitions and pooling-of-interest accounting to supply in the past. Beatrice has been a topnotch player of the growth game, but from now on it will have to play under a different set of rules. ■

Will Oxy Make It?

Probably, but it's not going to be a breeze.

FOR MOST of his 72 years, worldly Armand Hammer has enjoyed being in the midst of controversy. In the Twenties he was one of the first American businessmen to trade with Communist Russia. Later, as a dealer in art, he proved that art could be merchandised just like soap. In the Sixties, while most of the oil industry scoffed at this outsider, he built Occidental Petroleum from a tiny company (revenues of less than \$1 million) into a \$2-billion international giant.

Considering what he has been through and what he has seen, Hammer is probably taking Occidental's current problems in his stride—even though they have taken Oxy stock down from 55 to a low this year of 13, and have threatened Oxy's main source of raw materials and profits. It may not be the roughest experience he has ever had. Nevertheless, by ordinary standards, Oxy is in trouble.

When Los Angeles-based Occidental went into Libya four years ago, it won the best concessions, had drilling rigs going in record time and, by 1969, was averaging 600,000 barrels a day. The Libyan oil fed Oxy's impressive European retail network (1,500 service stations) and provided almost half the company's net income in 1969.

Then last September, a military junta ousted Libya's King Idris, whose government had granted Oxy's concessions, and the possibility of sharply higher taxes and even outright nationalization suddenly loomed.

Through the end of 1969, however, the Libyan crisis had not yet affected Oxy's sales and earnings. On

record revenues of \$2.1 billion last year it reported a 29% increase in per-share earnings to \$3. About half of that came from domestic chemical, coal, oil and natural gas operations. But the other half came from the production and marketing of Libyan crude, and there all is not well.

Tightening Screws

Oxy is not the only foreigner in Libya, but it is the most vulnerable. Its only major source of crude is Libya, and its only major marketing operation is in Europe. To compete profitably in this low-margin, highly competitive retail market, Oxy must have a cheap, nearby source of crude. Other companies in Europe get oil from places like Saudi Arabia and Kuwait as well.

Will the Libyan junta take away Oxy's oil? It would mean the loss of large royalties and taxes for the country and leave the Libyans hard pressed for transportation and marketing outlets. Oxy executives therefore discount the possibility of outright nationalization, though that is quite conceivable if a full-scale war breaks out again in the Near East. But even if it doesn't come to confiscation, the junta already has tightened the screws on Oxy and other oil companies. It is almost certain to tighten them further.

Last January, in an attempt to more quickly realize its capital investment, Oxy boosted production to 800,000 barrels a day. But then the new government caught on and in May slashed Oxy's allowable output to 500,000 barrels. Because Oxy's profit is about



Signal Again? Occidental picked up its European service stations plus several refineries from Signal Companies in 1968, shortly after a merger deal between the two fell through. Object: to gain outlets for Oxy's Libyan oil. With its current Libyan problems, the rumor is that Oxy might try again to merge with Signal. However, neither will confirm it.

30 cents a barrel, this move will cost it some \$20 million in annual income.

Now the government wants an increase of about 40 cents in the posted price of oil (*see box*); this would mean a tax increase of around 25 cents a barrel, which would just about wipe out Oxy's present profit on Libyan crude. Hammer says his contracts with outside customers, who now consume almost all of Oxy's total Libyan out-

How To Change without Really Changing

This is the story of a smart little country slicker.

FOR YEARS little Maytag Co. of Newton, Iowa (1969 sales, \$166 million) went its highly individualistic way. It sold a limited line of high-priced, standard-sized laundry equipment—period. Further, it refused to indulge in the merchandising practices favored by Whirlpool, Westinghouse, General Electric and other giant competitors: annual model changes, dealer junkets, sales to mass builders. Instead, it quietly built up one of the most highly respected brand names in the country. It increased sales year after year almost without interruption and netted profits of 27% on equity,

far, far above the U.S. average. It was an old-fashioned company in a modern kind of way.

Maytag is as individualistic as ever, but it's no longer just a washing machine company. Maytag now is getting its biggest push from products it didn't even have on the market three years ago, and most of them are not in the standard laundry field. Maytag, one of the last and best-known holdouts against diversification, has taken the plunge. But maybe diversification isn't quite the right word.

What happened was this: Maytag, shrewd as ever, realized a few years

back that washing machines had taken it as far as they could. The U.S. was becoming saturated with automatic washing machines, and, being durable appliances, their replacement market was limited. Between 1964 and 1969, the market for wringer and spinner washers in the U.S. also fell from \$100 million to \$50 million. Maytag needed some new products, but it did not want to change its basically conservative style of play. Says President E.G. Higdon: "We did not want to go into just anything and we did not want to buy another company."

So Maytag decided to go after a few relatively unexploited corners of the home appliance market. Corner No. One: dishwashers. While 95% of the wired homes in the U.S. have washing machines, only 20% have dish-



The Numbers Game

ONE of the tricky offshoots of the international oil business is the "posted-price" concept. A posted price is a fixed price that a government and the oil companies work out during heated negotiations. The reason for the arguing is that the posted price remains constant and is the basis for computing taxes and royalties (roughly 50% in Libya), whereas the actual market price fluctuates and can be much lower. The disparity is often painful. Says one executive whose firm is involved in Libya: "The government calls its taxation method a '50-50 formula'—they get 75% and we get 25%."

This bitter humor reflects the current posted price of \$2.23 per barrel for Oxy's Libyan crude, with taxes and royalties at \$1.10. But a barrel of oil in Europe brings only about \$1.70, so Oxy really has only 60 cents with which to produce the oil and make a profit. Since Oxy's production cost is about 30 cents a barrel, this leaves 30 cents for profit. Yet Libya wants to raise the posted price by some 40 cents, which would automatically increase taxes and royalties by about 25 cents. It's unlikely that the oil companies could boost their European prices at all, so in that case they would have precious little profit left.

put, allow him to pass on such an increase to his customers. But it's doubtful that the oil-glutted European market will support higher prices, contracts or no.

Oxy executives argue, of course, that Libya does not want to kill the goose that lays the golden eggs: some \$240 million annually in taxes and royalties from Oxy alone—a good part of which finds its way into the anti-Israel war machine. Perhaps not, but the evidence is that, while permitting Oxy to pump oil, the junta is not going to let Oxy make much money on it. The Libyan rulers know that Oxy cannot easily walk away from Libya.

Of course, Oxy takes a different view. "Even if Libya were blown off the map," says one vice president, Thomas Wachtell, "we'll be okay."

Wachtell can safely say this because Occidental has considerable assets, both outside Libya and outside the oil business. In the late Sixties,

when its stock was riding high on Hammer's Libyan successes, the company took advantage of investor enthusiasm to buy two solid properties, using convertible preferred securities. The properties were Island Creek Coal, the third-largest U.S. coal producer, and Hooker Chemical, now a \$435-million operation. The deals haven't proved especially happy for stockholders of these two Occidental acquisitions; the Oxy securities they got in exchange were recently worth one-third to one-half of their onetime market price. But they were good deals for Occidental, giving it solid assets and solid earnings from outside the oil industry.

Thus Oxy's survival probably is not in doubt. But its future growth is. Oxy's Libyan profits almost certainly will be reduced. If the Libyan situation continues to deteriorate, Oxy might be pressed by its creditors to pay off some of its long-term debt.

Over the next four years, Oxy faces some \$462 million in debt maturities. Against this it has sizable cash balances, some firm lines of credit and a big cash flow—some \$244 million last year. But it also has big capital-spending commitments. The net result could well be a cash squeeze that could force Oxy to omit dividends and curtail capital spending. In short, Occidental Petroleum may well spend the next few years going from one problem to another.

Or is there another way? There have been recurrent rumors that Oxy might be a prime merger candidate. Nothing has come of these, but the possibility remains. Major mergers are currently rare, but this could change.

For now, however, Armand Hammer obviously has his problems, and big problems they are. But don't underestimate Hammer. He's a man who has spent his lifetime getting into problems. And getting out of them. ■



washers, and the market is already \$500 million a year and growing by 20% to 25% a year. Corner No. Two: food-waste disposals for kitchen sinks, a \$100-million-a-year market where saturation is only about 20%. Corner No. Three: small, mobile washing machines (price: \$200 vs. \$290 for regular Maytag machines), aimed squarely at the growing number of American families living in apartments, where space is at a premium.

Maytag's new products are different, but there is a sameness about them. Markets and distribution are similar. So are the sheet-metal-working and enameling techniques, which Maytag has developed to a high art at its three small plants in Iowa. Because of these similarities, Maytag could bring out the new products

without plunging heavily; even now it is debt-free and loaded with cash (\$36 million according to the latest balance sheet, 36% of total assets).

Result: In a poor appliance year, Maytag is showing growth. This year's first quarter was about 7% better in sales (\$43.6 million) and 5% better in profits (39 cents a share) than the year before. For the rest of the year, Maytag will probably be slowed by the overall recession and by the near-collapse in home-building. Even so, it won't do worse than last year and may come out a trifle better.

Maytag President Higdon describes his new product lines as evolutionary rather than marking any basic change in the way Maytag does things. Which goes to show that a company can change without really changing. ■

The Billionaire Sealords

The private world of shipowning is dominated by a handful of men who amass incredible wealth—and avoid taxes—with 19th-century finesse.

SHIPOWNING, a gambling game that has made poor men into moguls and vice versa since Jason sought the Golden Fleece, is booming again. Not the glamorous passenger liners, nor the newly popular container revolution, but the prosaic bulk shipping trade—oil, coal, ore, chemicals—is churning up profits across the oceans of the world.

World trade is expanding at a merry 10% to 12% annually; demand for ships exceeds supply. Shipowners' profits are limited only by their inability to build more bigger-and-faster ships quicker. The world's shipyards have no free slips until 1973 or beyond.

Scarcity is gold-plating diamond-encrusted men. Freight rates, which last year brought a comfortable \$1-million profit to the lucky owner of an "unfixed" (unchartered) tanker or bulk carrier, this year will bring \$5 million for the same ship carrying the same load. This for a ship that cost no more than \$10 million or \$12 million only a few years back. Multiply those \$5-million profits by 40 or 50 tankers per owner, and the potential for instant superabundance is apparent. Remember, the typical shipowner pays income taxes at a low or non-existent rate.

International shipping is a waterborne roulette game in which international supply and demand spins the wheel, and international politics determine when and where the ball stops. The great surges in tanker-owner prosperity are tied directly to storm-cloud international upheavals: World Wars I and II, Korea (1950), Suez (1956) and the Six-Day war (1967).

War means disruption and shortage; both can mean sky-high rates. World War I produced the late Stavros Livanos, patriarch of Greek owners; World War II produced Stavros Niarchos, and boosted prewar owners Aristotle Onassis and Daniel Ludwig to unprecedented heights. Suez saved Onassis' neck—he had been boycotted by the major oil companies for trying to monopolize Saudi Arabian oil shipments; the Six-Day war made another flock of multimillionaires.

Shipping is a savage milieu, as savage as potential profits are high. Those shipowners who survive as independents are a different breed of men, most of whom play—or have once played—an all-or-nothing game.

Sealords, often billionaires—at least on paper—move in a rarefied world of kings, prime ministers, oil-rich sheiks, merchant princes, international bank-

ers and just the wealthiest of businessmen. This world is, for most of them, supranational and apolitical. Having few—if any—taxes, it has few—if any—national loyalties. These men understand the wealthy traveler in ancient Greece who, when asked his nationality, replied: "I am of the rich."

Anonymity Preferred

Publicity prone, the sealords are publicity shy. With the exception of Onassis and Niarchos—the world's great shipowners are practically unknown, and they like it that way. Their ranks include some of the world's wealthiest men, and their highly leveraged tonnage exceeds the combined World War II navies.

Onassis and Niarchos may be international headline catchers, but who has heard of C.Y. Tung or Y.K. Pao? Few daily newspaper readers could identify a member of the Livanos or Goulandris families, or would know Costa Lemos if they passed him on the street. There are big independent names in Norway: Sigval Bergesen being the best known.

Common to all of them is that a modern shipowner can win everything, but he can only lose as much as he stakes. His potential losses are usu-



Tax-Free Tankers. Avoiding the taxman through flags of convenience is accepted even by the U.S. The late H. Lee White, shipowner and sometime Assistant Secretary of the Air Force, lobbied through Congress an ex-

emption which allows U.S. shipowners to fly tax-free foreign flags providing they don't repatriate the money. Lee's argument: Without an exemption U.S. shipowners could not compete against foreign shipowners, thus

ally limited; his potential gains as big as the ocean. As one broker puts it: "Shipping is like sex. When it's good, it's exquisite; when it's lousy, it's still not too bad."

Shipping over the last 15 years explains what he means. After the post-1956 Suez wave of wealth when the canal closed and oil had to be hauled around the Cape, many shipowners, including the daredevil Greeks, became conservative. They signed long-term charters, diversified into oil refineries, real estate, shipyards, hotels and mining. Their long-term "fixes" eased them over some uncomfortable low spots between 1958-64—low spots that sank some of the unlucky, or less canny, owners. But shipowners still tied up long-term when the Arab-Israeli war started in 1967 had to settle for the usual 20% to 35% return on revenues.

Swingers & Squares

To see what they could have been making—in war-engendered circumstances—look at the risks and riches in the life of one Hilmer Reksten, a Norwegian owner based in Bergen, grudgingly admired by his peers as a "tough buzzard" and a "wavemaker."

Eight weeks ago Reksten "fixed" a one-year "block deal" with British Petroleum worth, insiders say, \$81 million. Using roundhouse figures, they guess that Reksten's profit on that deal alone will be \$60 million. *Profit*. Yet four years ago Reksten was in relatively bad shape: Few ships were fixed, and all those mortgages weighed

heavily. The Six-Day War started, Reksten instantaneously fixed his ships short-term and immediately ordered four 200,000 deadweight-ton tankers worth in excess of \$50 million. He ordered three additional tankers soon after—and continued to play the highly speculative "spot" market rather than accept slightly less profitable long-term charters. One BP deal pays off four tankers. Any future charters—after allowing 20% for operating costs—are all profit.

At the other end of the operating spectrum, minimizing risks, is Chinese shipowner-come-lately Y.K. Pao. The Y.K. is Yeu Kong, which means "solid jade." Former banker Pao began his shipowning career in Hong Kong—backed by financiers Wheelock-Marden and the Hongkong and Shanghai Bank—just 15 years ago. By the time his latest tanker is launched in 1973, Pao will have more than 7 million dwt. afloat—sufficient tonnage to move all the oil shipped in the 1930s. Yet Pao is conservative by shipowner standards—which means he builds ships only when he has long-term charters in hand from the oil companies. This limits profits, but it's one way—and not a new one—to build up a big fleet fast.

"I owe a lot of money," Pao said with a smile during a recent interview. "I must be conservative." He was explaining why he puts so many of his ships out on long-term charter. But he hastened to add that once more of his ships were out of long-term charter (and out of hock), many of them

would move into the "spot" market, the speculative arena, for chartering.

When a ship is bought, and at what price, is as important to profitable shipowning as the luck and timing with charters and rates. Pao, Reksten and H. Irgens Larsen (whose Gotaas-Larsen is part of International Utilities) are three who got into yards with huge orders at good prices before costs and demand started to gather momentum. Tankers for which Larsen paid \$14 million when ordered in 1966, are today, afloat, worth \$24 million—\$28 million. Still on the ways in the world's shipyards, they can be traded for \$21 million. There's money everywhere—when the market bubbles.

The Telephone Tribe

Shipping, for all of its glamour and potential, is rather a private world. It has its own cast of characters and its own style. Operating between shipowner and charterer, like a milkmaid with her fingers on an udder of liquid gold, is the broker taking in commissions of 1½% of the gross freight rate. And there are usually two brokers per "fix," one for the owner, one for the charterer. This is a world in which a telephone commitment is a bond, a different, hard, calculating world far removed from the butterfly existence aboard fancy yachts. The telephone is always—literally always—at hand. In the car, the bathtub, at the exclusive restaurant with the permanently reserved table, the phone is the shipowner's lifeline—and the man on the other



leaving the U.S. dependent on foreign shipowners. Thus tax-free money made overseas by shipowners like Daniel K. Ludwig or the U.S. oil companies is plowed into foreign investment. Some Greek shipowners fly a

few Greek flags and pay taxes by negotiation. If taxes in Greece go too high, the owners can always re-register them as flags of convenience. Taxes on personal income? There'll always be a Swiss bank.

end of the wire is usually a broker.

In an age of "scientific management," shipping's management style is frequently 19th century. Onassis, from the poolside phone on his yacht *Christina*, commands more tonnage than any admiral buried in the bowels of the Pentagon; Niarchos dictates orders from Spetsopoula, his Aegean island retreat. Yet both exert tighter management control than many a chairman sitting atop his empire at corporate headquarters.

The world's news services would find it hard to rival the information-gathering techniques of the shipowners and bankers. Their knowledge of world affairs is truly phenomenal, their interest in daily events all-encompassing. An election in India can be as significant to a shipowner (anticipating a grain haul there from Canada perhaps) as the nationalization of an oil field. A minor amendment to little-known legislation in any of a hundred national capitals is known to the last detail if it affects the shipowners.

When the British government entered into informal diplomatic relations with the Vatican in 1887, it was because the missionaries were unwittingly better listening posts around the Empire than colonial civil servants. Reuters, Associated Press and United Press International could do a lot worse than make similar arrangements with the shipowners for news-gathering facilities. And the brokers echo this penchant for instant information: It would be just like a canny shipowner to take advantage of a fast newsbreak.

It was with some sincerity that a shipowner, one putting a lot of emphasis on dry cargo, told *FORBES*: "All I want is five minutes' advance notice the first time the Japanese steel industry falls 5% short of its goal. Just so I can fix my fleet long-term before the bottom drops out of the market."

Brokers feel much the same way. A good No. Three or Four man who catches an owner's eye need only walk up the street, open an office and install a phone to be in the brokerage business for himself. But the business is a demanding mistress. "Shipping is 24 hours a day, seven days a week. You answer the phone everywhere. There are no prior commitments for a broker. Everything stops for business," one told *FORBES*.

Sometimes managing or even owning a few ships, the brokers do very well for themselves—but scarcely as well as many top members of shipowners' staffs. "Shipowners have found a winning combination," *FORBES* was told. "Their men are extremely capable, very dedicated, awfully hardworking and handsomely compensated. You can't do better than that."

Some top men—like Onassis' close friend Costa Gratos, who has ships of his own and manages Onassis Victory Carriers in New York, and Wharton Business-school educated Morley Cho, top man in America for C.Y. Tung—are as much members of the family as of the firm. Debonair Said Taub, the dashing handsome Persian-born executive for N.J. Goulandris in New York, and quiet Paul Lee, the vice-president-director who looks after Y.K. Pao's interests here, are other members of this charming, hardworking crew. Many shipowners keep it in the family. Sons-in-law, brothers-in-law and cousins abound—particularly in the Greek shipping fraternity.

Owners grown rich in oil these days see a new wonder opening up before them in dry bulk—ore, coal, chemicals, fertilizers, grain and wood. So attractive is the future in raw materials movement that there is more than \$4 billion worth of dry bulk, combination (oil/ore) and OBO (oil/bulk/ore) carriers on order around the world. By the time those carriers come off the slips, world commercial tonnage—including oil tankers, which still account for 50%—will have almost doubled in a decade.

Japan Once Again

Japan is the most important single factor in bulk. That nation's determined dash for 160 million tons of steel production by 1975 has owners carting iron ore and coal—the essential ingredients for steel—around the world. Shipowner Erling Naess, whose Anglo-Norness Shipping was merged into Zapata Off-Shore to form Zapata Norness in 1968, once said: "God must have been a shipowner, for who else would have placed everything so far away from where it was needed?"

But *how* Japan is doing it may yet jolt the U.S. steel industry into an unprecedented flurry of activity. With huge ore carriers, the Japanese expect one day to haul ore from South Africa to the Japanese mills. They are already moving it from Brazil to Japan at the same price per ton that Americans ship it from Duluth, Minn. to Gary, Ind. A decade ago, America had the cost advantage on ore shipping because its 70,000-ton carriers were twice the size of anything the Europeans or Japanese could unload for their steel mills.

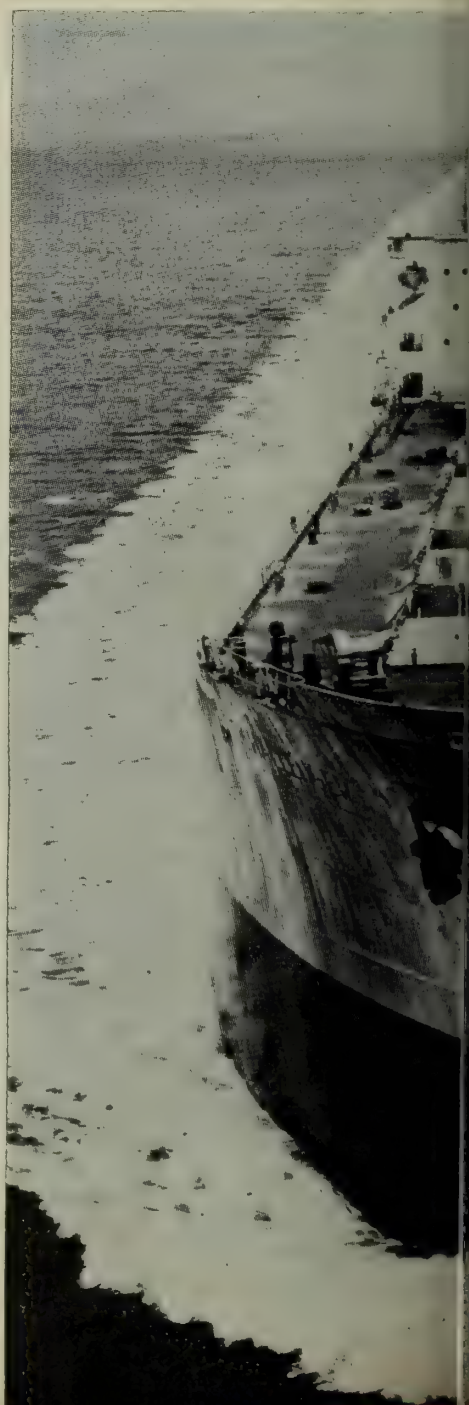
Today the Japanese are dredging river approaches to get supercarriers with 200,000-ton-and-greater loads to their waters-edge steel mills; the German and even nationalized British steel industries have 100,000-ton-capacity ore terminals; but the U.S. still can't handle anything over 70,000 tons—and there's nothing to fill the

gap on the nation's drawing boards.

"Everyone admits U.S. Steel made a mistake building its Fairless works so far up the Delaware," said one shipowner. The waterborne ore carriers are limited by the Fairless approaches to just over 60,000 tons.

Erling Naess said he recently had been asked by German steelmakers, who feel landlocked in the Ruhr, what they should do. "I told them to rebuild at deepwater, somewhere between Wilhelmshaven and Emden, but they said it would be too expensive. In the end it will be too expensive not to."

American steelmakers cannot currently match Japanese prices (scarcely 20% of the steel for America's new showpiece, the New York World Trade Center, is from U.S. mills), and the gap will widen. All of Japan's



steel growth is linked to economies of scale, and from Tobata (Yawata Iron & Steel's port) to Chiba (Kawasaki Steel's port) the channels are being prepared for increased draft ships—which are being built not far away at Yokohama and Yokosuka. Nor is it just ore that looms large. D.K. Ludwig's Bantry Bay operation on Ireland's west coast has 325,000 dwt. tankers pumping crude into smaller delivery craft in a very well-conceived operation.

Shipowners have a profound interest in the U.S. terminal capacity because U.S. oil imports constitute much of their livelihood—along with Persian Gulf to Europe trading. Many congressmen and lobbyists would love a similar facility for the U.S. East Coast. Yet the U.S. is hopelessly behind: Machiasport, Halifax, Nova Scotia and

even an artificial island terminal for the Delaware Bay are still just ideas.

Why don't the oil companies carry their own crude instead of making foreigners into billionaires? The answer is that they do. In a downturn, the independent tanker owners' biggest customers can become their biggest competitors: Texaco, Mobil, Cities Service, Standard Oil of N.J. and more, using the same cut-rate flags of convenience (known by shipowners as flags of necessity) for most of their fleets, have tonnage to equal the independents.

Company fleets handle up to 85% of a major oil company's needs, the rest are chartered—and that's where the independents reap their riches. In the long run, however, that's still cheaper than an oil major attempting to carry all its oil in company-owned tankers, maintains shipping consultant Roger M. Jones of Nassau. Tankers—including mortgage payments—cost about \$14,000 a day to operate, which is all right when there's something for them to do. Few stockholders would permit oil majors the luxury of idle fleets worth hundreds of millions laid up and costing millions a day during a downturn in the market.

What happened to oil majors of late, insists one broker, is that in addition to unexpected pipeline disruptions, they woefully underestimated their needs for the early Seventies—and that's part of the boom. What else? Combination carriers and OBOs have been available to the oil companies, but with dry-cargo charters in high demand, the combinations and OBOs have often been snatched away from oil charter to ore and coal.

Thus, shipowners, who might only need a \$4-a-ton rate to break even on a particular tanker run, now are getting almost three times that: \$11.18. These handsome dividends are as welcome as they were unexpected. But even with all these figures floating about, it doesn't really mean that there is a clear-cut picture of exactly how much any single independent shipowner is worth.

Disentangling shipowners' incomes from shipowners' revenues is a Herculean task. "Always believe the highest figure," said one insider. "It won't be accurate, but it'll be closer than the lowest." Owners often have more companies than a Bahamas attorney has corporate titles on his door. None of this, of course, makes it any easier for an inquiring taxman, one of the few men all shipowners fear.

Y.K. Pao's corporate empire shows how intricate it can get: Pao's World-Wide (Shipping) Ltd., in Hong Kong, has 11 subsidiaries; World Maritime Bahamas Ltd. has nine Hong Kong subsidiaries and 24 Liberian subsidi-

aries; Eastern Asia Navigation Co. Ltd. (Hong Kong) has 23 Hong Kong subsidiaries, 14 Liberian subsidiaries, a Bahamian subsidiary, a Panamanian subsidiary; World Shipping Investment Co. Ltd. (Hong Kong) has five subsidiaries. Then there are Pao's Eastern Giant, Liberian Ensign, Liberian Independence and Liberian Swan groups of companies, each with subsidiaries. Atop the pyramid is Y.K. Pao. He, like his Greek, European and American counterparts, atop their own pyramids, makes the decisions.

Multibillionaires Next?

But aren't there any clouds on the horizon? Yes, potential storm clouds dark enough to send independent shipping incomes sinking faster than the mercury in the path of a storm. Brokers and shipowners talk in terms of this present onslaught of wealth easing dramatically by 1973-74. This scarcely leaves enough time for anyone to become a multibillionaire, though Ludwig is closest—closer to \$2 billion than \$1 billion, that is, according to a London bank study.

Cloud One is the ever-present uncertainty of what can happen to spot rates. "Five empty ships anywhere in the world seeking charters can send the prices plummeting," a broker explained. It was a tanker shortage, especially following explosions in three supertankers, that in part sparked this year's meteoric rate climb.

Cloud Two hovers over oil. If newly discovered North Sea oil does become a major input, the Persian Gulf-Europe trade will ease markedly. "But that's all right, it's low sulphur, low in pollutants, we can ship it from Scotland to Machiasport," laughed another tanker broker.

Clouds Three, Four and Five are the Japanese fleet abuilding, shipbuilding costs soaring and insurance rates a climbing (see "Hands across the Pool" p. 45). Clouds Six, Seven and Eight are the threats of America's recession, a possible dramatic easing in world trade and a shortage of qualified ships' officers and men.

But the owners are still on Cloud Nine. They have goldplated its silver lining. They live on risks, they know their business, and when a storm comes, the successful ones know where to run for cover. But of course, the days are gone when a person could just go out into the shipping world and, with a few old ships, expect to become a billionaire. After all, today's shipowners have the game all tied up. Or have they?

"My brother," said Y.K. Pao, "has just managed to obtain his first three bulk carriers in order to. . . ." Need one say more? ■



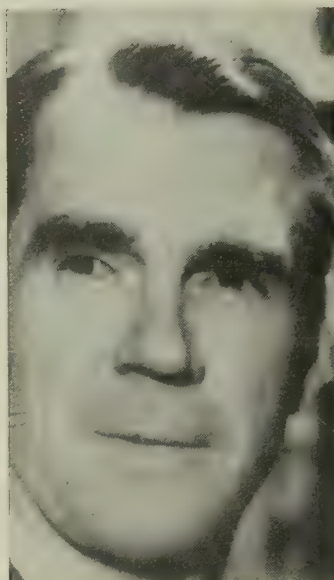


C.Y. Tung

Oceans of Wealth

with C.Y. Tung than anyone else. He has the most sympathetic ear of all shipowners."

This photograph of Daniel Keith Ludwig, 73, was taken at least seven years ago and is one of the few in circulation. The shy billionaire, who owns National Bulk Carriers in New York, practically wrote the book on how to



D.K. Ludwig

DECIDING who is who among a group of self-made billionaires is an esoteric pursuit for which most commentators lack one useful qualification—knowing what it's like to be one. Ludwig, Onassis, Niarchos and Lemos know. Their billion dollars or more each represents not just highly leveraged ships, but less erratic holdings like paid-up ships, mines, refineries, shipyards, hotels and real estate.

Greek families in combination, like the Livanos or the Goulandris clans, are in the billionaire bracket too—though source material on shipowners' fortunes reads more like gossip columns than annual reports.

Chinese shipowner C.Y. Tung may well be a billionaire, on paper; Y.K. Pao could be one a few years from now, though he currently falls into the more humble, but not painful, semi-billionaire or demisemibillionaire class.

In attempting to gauge shipowning billionaires as businessmen, *FORBES* has relied on the comments of shipowners, their top staffs and others to get a highly subjective potpourri of "don't mention my name" judgments.

First National City Bank of New York likes C.Y. Tung, the deferential but extremely astute mainland-China-born banker, now 58, who entered shipping 40 years ago with one small tramp steamer.

Citibank likes to do business with C.Y. It trusts his judgment. He is on the board of the First National City Trust Co. Ltd., which "conducts a general trust business under the laws of the Bahamas and affords various advantages to foreign customers and foreign subsidiaries of U.S. corporations."

However, the greatest compliment comes not from a bank. "If I were a charterer," said an executive in a company which does no business with Tung, "I would rather do business

make a billion in shipping. The Greeks read it, and the Chinese borrowed it from them. Ludwig also showed how to build big tankers quickly, both in the U.S. during World War II and then in the Imperial Japanese Navy's Kure shipyard, which he helped rebuild from ruins after the war ended.

Ludwig's strong point is conceiving workable schemes. William Wagner, his fiscal and operating expert, found the money for them and made them work. Ludwig's weakness became apparent when Wagner died; there was no one to replace him.

One insider reported: "Bill Wagner must have had about 40 people reporting directly to him. They were missing two levels of management."

Apparently an interregnum troika manages National Bulk at present under Ludwig's tutelage. William Yost, once president of Navios, U.S. Steel's Bahamas-based chartering company, came to National Bulk this year after Wagner's death. Yost, now in his 60s, is there "for a short interim period,"

insiders say, to handle the shipping side of the business.

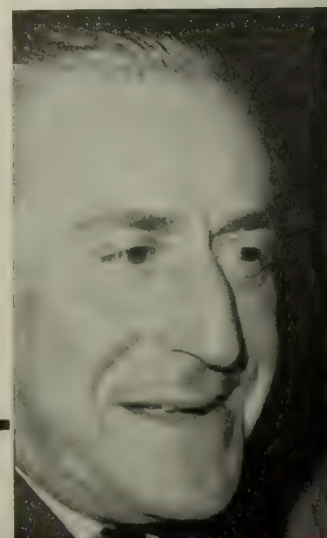
If Ludwig's management hasn't kept pace with National Bulk's growth, perhaps it is because few empires have grown so fast, or spread so far: into a dozen countries, into mines, ranches, insurance, banks, hotels, refineries and real estate. As an entrepreneur he ended up as the fourth-wealthiest man in America, after H.L. Hunt, J. Paul Getty and Howard Hughes. And Ludwig is the only one whose wealth is based on trading, not on the discovery of natural resources.

Stavros Niarchos, 61, made his first million in profit from the insurance collected when three of his ships, the *Maleas*, *Olympic* and *Bayou*, were sunk by U-boats and the Luftwaffe. The Athens-born son of a Buffalo, N.Y. candy store owner, he had paid \$710,000 for them, according to the figures in Doris Lilly's book *Those Fabulous Greeks*. He collected more than \$2 million from the insurance companies—which thus learned to be not as generous with their coverage.

With the insurance cash, and profits from tax-free wartime freight rates, Niarchos made the big gamble when the war-surplus Liberty ships and tankers hit the market—assuming that the demand for their services would come. He was right. The only other experience he needed he got honing his business instincts to a fine edge on the internecine competition of matching wits with in-law Onassis (the two men were once married to sisters).

Of all the shipowners, Niarchos seems to be the only one who ever thought of getting out of it completely. In the mid-Sixties he was considering offers for his entire fleet. Something—instinct?—decided him against selling. Then came the Six-Day War.

S. Niarchos





C. Lemos

"No babes, no yachts." That's how one man described the mystery Greek billionaire Costa Lemos, who started from scratch with three Liberties in the late Forties. A lawyer who holds his master's papers, Lemos knows his ships from stern to stern. "He can address every officer by name; when he goes on board the first thing he looks at is the engine room." Lemos, now in his early 60s, is not an isolationist within the Greek shipping fraternity—but he rarely surfaces outside it. He is a stickler for exacting business just as written in the charter. "But Lemos has the reputation as a tough man for a charterer to get along with. But he has led the way. He's innovative in terms of big ships and he's becoming very big in the bulk trade."

Y.K. Pao, 59, who just launched *World Princess*, his latest 226,700 dwt. tanker, in Sweden, has more tonnage on order than most shipowners—nearly 3 million, all to be delivered by 1973. Whether the market has been good to his long-term contracts—signed before any of the keels were laid—is academic musing, because he can't lose money on the deal, no mat-

Y.K. Pao



ter which way the market goes.

Were Aristotle Onassis a character in fiction, the novel that contained him would be judged preposterous. Yet, if his social life provides more column inches than Hollywood en masse, his business career borders on the incredible: from accusations of invisible ink on contracts, to being nearly starved out of the tanker business.

After Onassis nearly got the corner on Saudi Arabian oil shipments, the majors threatened never to do business "with that skunk again." But the oil companies were caught with their tankers down when Suez closed in 1956, and Onassis had his sitting there waiting to be used. His rates came so high, said a broker—a reputed 1,200% of operating costs was the highest rate fixed—that Onassis "squeezed the last drop of revenge out of them with a chuckle."

Son of a Greek tobacco merchant in Turkish-ruled Smyrna, Onassis, now 64, was 16 when he fled the Turkish pogrom in 1923 for freedom in the Argentine. Within two years Onassis had parlayed money saved from jobs as a construction worker, then telephone installer, into a small tobacco import business.

This—and a trip to Greece—led to the hectic but educational post as Greek consul in Buenos Aires, and he continued his tobacco business while he learned the intricacies of shipping at the consulate. The gamble was to buy ships during the Depression and leave them drydocked until business picked up. It did. By 1938 he was building the largest tankers in the world, then a modest 15,000 tons—and people said it couldn't be done.

When World War II ended Onassis hadn't lost a single ship (three were locked in neutral harbors, the rest were lucky) and was buying ships against contracts wherever he could. His dealings to get hold of U.S. surplus Liberties and tankers led to a Washington investigation and his first headlines. The press has kept him there ever since, though his reticent competitors accuse him of having learned how to use publicity—which they detest—to his own advantage. If true, it's in character.

Menander, Greek poet and playwright in the 3rd century B.C., warned the Greeks: "Better be a pauper on the land than a Croesus on the sea," advice they have been successfully ignoring ever since.

Greek culture was nurtured in an empire comfortable from the profits of the mercantile abilities of the Greek



A. Onassis

island sailors. Island Greeks, who have been putting out into the Aegean since before recorded history, claim to be the aristocrats among the Greek shipowning fraternity. Neither Onassis nor Niarchos is an island Greek, but the title does fit the Goulandris family, who hail from Andros Island, as well as the Livanos (Chios) and Gratsos (Ithaca) families.

Islanders took to the sea in part because the land is poor and ungiving. Entire families would pool meager savings scratched from the earth to buy one leaky uninsurable boat, and from such humble beginnings the dynasties have been built.

But dynasties belong to another age, one carried over into the last quarter of this 20th century by the billionaire shipowners of the world. Their success is based on many things, but the key advantage shipowners have over all the other industrial empires is paying virtually no taxes.

And that's the heritage George Livanos, 35, Alexander Onassis, 22, and Philip Niarchos, 18, get from their fathers! Let them maintain it if they can. ■

G. Livanos



Big Losers on the Big Board

If you've been battered in the market, are sitting on the sidelines and feeling pretty low about it, the following list will provide whatever consolation comes from having plenty of company.

Of course, nearly everybody has losses in such a bear market, with the Dow Jones industrial average down 25% from its 1968-69 high. But more than 100 New York Stock Exchange issues are down by two-

Company	1968-69	Recent	Decline	Earnings		P/E Ratio
	High	Price		1968-69 Change	Latest 12 Mos.	
Automotive & Aircraft						
Ambac Industries	33¾	9⅝	71%	1.3%	\$1.40	7
Beech Aircraft	47	9¼	80	— 75.0	d 0.24	—
Boeing	90¼	14	84	— 87.8	0.11	—
Budd	37	9	76	— 7.9	0.69	13
Chrysler	72¾	18¼	75	— 70.0	0.24	—
Grumman	48¼	15⅝	68	16.1	3.10	5
Lockheed Aircraft	60⅝	8⅝	86	=	d 3.28	—
McDonnell Douglas	59⅝	14¾	75	23.1	3.76	4
White Motor	57½	10⅝	81	— 26.1	1.64	7
Transportation						
Am. Export Inds	70	8⅝	88	— 73.0	0.89	9
Chi Mil St Paul	58⅞	7⅝	87	*	d 3.54	—
Eastern Air Lines	48	12	75	‡	0.81	15
KLM Royal Dutch	85⅝	29⅝	65	— 1.9	6.93	4
Northwest Airlines	47¾	15⅞	67	— 6.9	2.58	6
Pan American	31¾	8⅝	73	*	d 0.91	—
Penn Central	86½	6½	92	— 95.3	d 0.72	—
TWA	50¼	10⅝	79	— 10.2	d 1.24	—
UAL	66½	13¼	80	7.2	1.64	8
Western Air Lines	45½	7½	84	*	d 2.53	—
Education & Leisure						
Admiral	25⅞	7⅞	72	—	d 1.07	—
Bell & Howell	91	25½	72	— 15.5	2.03	13
Chris Craft Inds	29⅞	6¼	78	— 12.9	0.29	—
Columbia Pictures	45¼	10½	77	— 46.6	1.10	10
Crowell-Collier	44	9⅝	78	13.2	1.22	8
MCA	53¼	13⅝	75	— 81.8	0.11	—
McGraw-Hill	54⅝	11¼	79	— 9.7	0.95	12
M-G-M	55	13	76	*	d 5.24	—
Metromedia	57⅞	10⅝	81	— 73.3	0.54	—
Twentieth-Cent Fox	41¾	8⅝	81	*	d 4.68	—
Consumer Products						
American Bakeries	34½	9⅝	73	*	d 1.17	—
Libby McNeill & Libby	19⅞	5⅝	72	*	d 2.40	—
Purex	38¾	11¼	71	2.7	1.30	9
Wolverine Worldwide	23⅝	7⅝	68	— 5.0	0.90	8
Electric & Electronics						
Ampex	49⅞	15¾	68	68.8	1.34	12
Collins Radio	101⅞	11	89	— 32.2	0.98	11
Essex Int'l	59	19½	67	— 8.7	3.02	6
General Instrument	63¼	12⅝	80	— 67.8	0.52	—
Globe-Union	30¼	9¾	68	38.2	1.27	8
Int'l Rectifier	26⅝	6¼	77	‡	0.24	—
Lionel	21¼	4⅝	78	50.0	0.22	—
Loral Corp	20	3¾	81	*	d 0.01	—
North Am Philips	59¾	20¼	66	11.7	2.47	8
Northrop	53½	17⅞	68	15.9	4.05	4
RCA	55	18½	66	— 2.1	2.09	—
Standard Kollsman	31¼	6⅝	78	‡	0.05	—
Triangle Industries	46	11¾	74	— 62.0	0.82	14
Metals						
Am Zinc	30⅞	7⅝	75	‡	d 0.47	—
Anaconda	66¼	22½	66	11.8	4.19	5
Insilco	37⅝	12⅞	66	2.9	1.39	9
McLouth Steel	48¼	13⅝	71	— 68.3	0.17	—
Pan Am Sulphur	41¼	7⅝	81	— 89.7	0.04	—
Texas Gulf Sulphur	49⅞	14	72	— 14.4	1.92	7

d deficit * deficit in 1969 ‡ deficit in 1968 † deficit in 1968

thirds or more. That's right, two-thirds or more.

Here is the casualty list. On it you'll find some of the biggest corporations in the U.S. Some 68 of these stocks have dropped by more

than 75%, while a surprising 38 are down by more than 80%. Four—Penn Central, A-T-O, Ling-Temco-Vought and Villager Industries—have fallen by over 90%, although they had their own special trou-

bles. The breadth of the bear market is attested to by the evenness of the industry categories. Nearly all had from six to 11 companies; only the multicompanies were out of line, with 22 big losers. ■

Company	1968-69 High	Recent Price	Decline	Earnings		P/E Ratio
1968-69 Change Latest 12 Mos.						
Multicompanies						
A-T-O	74	7	91	125.0	0.82	9
Avco	65	11 $\frac{1}{8}$	83	— 17.0	2.47	5
Avnet	43 $\frac{1}{2}$	6 $\frac{7}{8}$	84	— 36.0	0.84	8
Bangor Punta	61 $\frac{1}{8}$	6 $\frac{5}{8}$	89	— 52.5	0.59	11
Bath Industries	41 $\frac{1}{8}$	9 $\frac{1}{2}$	77	19.3	1.54	6
Colt Industries	83	14 $\frac{5}{8}$	82	— 95.6	d 0.17	—
Gulf & Western Inds	66 $\frac{1}{8}$	12 $\frac{3}{8}$	81	— 28.3	2.38	5
Itek	138 $\frac{1}{4}$	29	79	—	2.06	14
Kidde, Walter	87	17 $\frac{1}{8}$	80	14.6	3.58	5
Ling-Temco-Vought	135 $\frac{3}{4}$	11 $\frac{1}{2}$	92	*	d 2.35	—
Litton Industries	104 $\frac{3}{4}$	16 $\frac{3}{8}$	84	33.1	2.13	8
MSL Industries	47 $\frac{7}{8}$	10 $\frac{3}{8}$	78	32.9	1.31	8
NVF	36	9 $\frac{1}{4}$	74	—	8.69	1
Ogden	52	6 $\frac{3}{4}$	87	— 43.7	0.76	8
Olin	48 $\frac{1}{2}$	14 $\frac{1}{2}$	70	— 8.7	1.95	7
Questor	35 $\frac{1}{2}$	10 $\frac{1}{4}$	71	5.6	1.54	7
Rapid-American	52 $\frac{1}{2}$	8 $\frac{1}{4}$	84	0	3.34	2
Republic Corp	61 $\frac{1}{4}$	9 $\frac{1}{2}$	84	31.6	1.88	5
Teledyne	71 $\frac{1}{8}$	14 $\frac{1}{2}$	80	28.2	2.02	7
Transamerica	43 $\frac{5}{8}$	12 $\frac{3}{4}$	71	— 2.8	1.29	10
United Brands	58 $\frac{5}{8}$	13 $\frac{1}{2}$	77	100.1	2.35	6
Whittaker	47	5 $\frac{7}{8}$	88	6.1	1.49	4
Information Processing						
Address-Multigraph	91 $\frac{7}{8}$	25 $\frac{3}{8}$	74	7.1	2.76	9
Control Data	163 $\frac{1}{2}$	33 $\frac{7}{8}$	79	7.0	2.48	14
Leasco Data	57 $\frac{1}{4}$	8 $\frac{1}{8}$	86	77.4	2.34	3
SCM	61 $\frac{1}{4}$	11 $\frac{7}{8}$	81	11.3	1.73	7
Industrial Equipment						
Allied Products	63 $\frac{3}{4}$	12	81	27.7	2.31	5
Babcock & Wilcox	48	14 $\frac{3}{4}$	69	— 77.5	0.20	—
Leesona	59 $\frac{5}{8}$	11 $\frac{3}{8}$	81	24.7	1.56	7
Massey-Ferguson	26 $\frac{1}{4}$	8 $\frac{5}{8}$	67	15.9	1.48	6
Monarch Mach Tools	51	14 $\frac{3}{4}$	71	— 25.2	2.50	6
Oil & Chemical						
Clark Oil	65 $\frac{3}{4}$	17	74	7.6	1.64	10
Natomas	130 $\frac{1}{2}$	28 $\frac{1}{2}$	78	*	d 0.36	—
Occidental Petroleum	55 $\frac{3}{8}$	13 $\frac{5}{8}$	75	29.1	2.94	5
Publicker Inds	19 $\frac{1}{4}$	5 $\frac{1}{8}$	73	‡	d 0.05	—
Zapata Norness	87	11 $\frac{5}{8}$	87	78.5	0.56	—
Retail						
Allied Supermarkets	22	5	77	— 47.6	d 0.19	—
Arian's Dept Stores	40 $\frac{7}{8}$	7 $\frac{1}{8}$	83	— 36.5	0.93	8
Spartans Inds	29 $\frac{1}{2}$	7 $\frac{3}{8}$	75	21.2	0.94	8
Vornado	37 $\frac{1}{4}$	9 $\frac{1}{2}$	75	— 13.6	1.47	6
Textiles & Apparel						
Villager Inds	48	4	92	*	d 2.55	—
Wayne-Gossard	31 $\frac{1}{2}$	10	68	— 32.8	1.44	7
West-Point Pepperell	54 $\frac{3}{8}$	17 $\frac{1}{4}$	68	18.0	1.99	9
Others						
American Sterilizer	43 $\frac{1}{2}$	13	70	6.8	0.95	14
Brown Co	28 $\frac{1}{4}$	4 $\frac{3}{4}$	83	†	0.23	—
LFC Financial	20 $\frac{1}{8}$	4 $\frac{1}{2}$	78	‡	d 0.97	—
MacDonald, E F	24 $\frac{1}{8}$	5 $\frac{1}{8}$	79	— 33.0	0.66	8
McDermott, J. Ray	103 $\frac{1}{4}$	16 $\frac{3}{8}$	84	— 32.7	3.00	5
Standard Packaging	23 $\frac{3}{8}$	5 $\frac{5}{8}$	76	*	d 0.65	—
Uris Buildings	33 $\frac{5}{8}$	10 $\frac{1}{8}$	70	34.0	0.61	17

d deficit * deficit in 1969 † deficit in 1968 ‡ deficit in 1968-69

Conglomerate of a Different Color

What, another conglomerate? Yes and no: John Billera's U.S. Industries is a conglomerate, but a unique one.

"FOR EACH of the past five years," starts U.S. Industries' Chairman I. John Billera—and then ticks off its accomplishments since he took over the management in 1965.

"For each of the past five years our internal growth has exceeded 15% a year, and that doesn't count any of our growth through acquisitions. We've increased earnings per share every year, and we've done it without changing the accounting in our subsidiaries, without selling off any libraries of films or anything like that and without sneaking in profits from stock market speculation."

USI has made more than 90 acquisitions since 1966. Its \$1-billion-plus sales are spread over building materials, apparel, machinery, agriculture, services and plastics—about as conglomerate as you can get. It has so many divisions and so many businesses that no single one accounts for more than 5% of profits. Chairman Billera and his small staff make no pretense at running all these businesses. They keep on the old management, simply auditing the results and controlling the cash flow.

USI is unusual in the way it pays for the acquisitions. USI normally buys a business for dollars and makes payment in common stock. But not all at once. The seller gets part of his shares as down payment; the remainder he "earns" over a five-year period by keeping his division's earnings growing at an agreed-upon rate—on average, about 15% a year. If he lifts them faster than that, he gets his "contingency" payment sooner. If he does not achieve the agreed rate in any year, he can earn his contingency payment by making up the lag later, but only within five years.

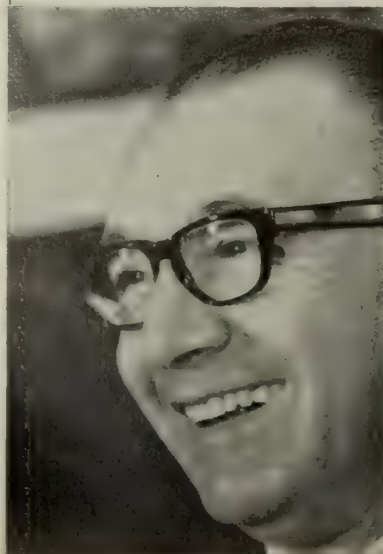
This makes for some oddities in USI's financial reporting. In 1969 the company earned \$63 million on just over 20 million shares of common stock—\$3.15 a share. But it was able to report earnings of only \$2.23 a share. A relatively small part of the discrepancy results from the existence of an issue of convertible preferred, whose potential dilution must be allowed for in the reported earnings figure. Much the larger part stems from the 4.3 million shares that USI had to reserve at last year's end for "contingency payments on its acquisitions."

If Billera's concept is a sound one, then this second form of dilution may well be totally offset by earnings gains. The explanation is simple: If the ac-

quired company meets Billera's formula, its old owners get, in USI stock, the remainder of the agreed-upon price. But to get the additional stock, they have to effect a corresponding increase in earnings. Result, in theory: no net dilution.

In spite of this novel setup, or perhaps because of it, the market is putting a very low value on USI's earnings these days. At a recent price of 11, USI was down 66% from its 1969 high to just five times last year's earnings. This, of course, limits Billera's ability to make further acquisitions. Billera contends that his freedom is *not* further limited by the recent accounting ruling that would effectively deny him the use of the pooling technique: "We never paid fancy prices," he says, "so we don't carry a lot of

"Shove off!" John Billera (below) was once brushed aside in a corporate take-over himself. "Some years ago two other men and myself went into a small packaging firm at half pay in hopes of having a piece of it some day. It had been inherited by a woman who didn't care about business. It was in the red but in one year we were able to make red figures black. We're right in the middle of expanding when this woman begins screaming about dividends. Well, one day the company was sold. The new owner came into my office—I was chief financial officer—and said: 'How would you like to be assistant treasurer?' I told him to shove off."



goodwill." But the ruling does mean that he can no longer pay in excess of book value without stunting future earnings growth.

The crimp on USI's acquisitions makes it the more essential that USI companies achieve their internal growth goals—not an easy task in today's economy. Billera admits that the heads of acquired companies might be tempted to exaggerate profits in order to earn their contingency shares. But he says that in practice it hasn't happened. He talks of USI's continued internal auditing and its monthly surveillance by group chairmen, no one of whom has more than eight companies under his control.

"We've had only three or four instances of problems of that kind out of 110 companies," he says. "The biggest reason these companies come to us is that they're clamoring for someone else's capital to grow on—they don't want to risk any more of their own, and so they pass up all of these opportunities. We give them the motivation to pursue these opportunities."

If an acquisition doesn't pan out, Billera loses no sleep over it. "We take a view like Macy's takes when it buys merchandise and then discovers that it has goofed. They have a fire sale rather than expend more good money after bad. We've been lucky: We've had just one such instance so far,"—a little defense contractor whose program was cancelled.

Billera says that USI doesn't "indulge in the sins of synergy." Says he: "We have 110 accounting departments and 110 purchasing departments. This is waste. But we're trying to perpetuate small-company dynamics. Nobody comes in and sweeps these guys into Department Four—they retain their identities."

No question about it, John Billera has an interesting idea for doing something nobody else has yet accomplished: building a big company without killing the entrepreneurial spirit down in the ranks. But his idea also has its share of built-in strain. For example, a division that earns its contingency payment today, when the stock price is sharply down, gets more shares than a division got whose contingency payment has already been earned. Thus the first-named division effectively dilutes the shares of the second.

Will Billera succeed? It's too early to tell. But if he doesn't succeed, he'll certainly hear from his stockholders in no uncertain terms; some 40% of USI's stock is held by the managers of what are now its divisions, and the percentage is rising. It's a case where the stockholders not only *own* the company, they *manage* it as well. ■

The Money Men

When Richard Carney Buys Goldfish . . .



Carney of Lionel Edie

RICHARD P. CARNEY is 31 years old and has never gone to business school. Nevertheless, he manages two mutual funds backed by prestigious Lionel Edie & Co., which in turn is owned by Merrill Lynch, Pierce, Fenner & Smith. One fund, with \$10 million in assets, is designed for tax-exempt institutions; the other, with \$6 million, is for individuals seeking special growth stocks. Both are much smaller than planned because Edie brought them out in August of 1969. Carney, the man who runs them, would have looked something like a cliché in the context of the 1962-69 bull market. In today's market he looks more like a vestigial remain. And in tomorrow's market he's an enigma.

The trouble with dismissing him out of hand, however, is that most truths are so simple they end up as clichés. And that's why they are so hard to see.

Richard Carney wanted to talk to *FORBES* because he "firmly disagreed" with a recent *FORBES* arti-

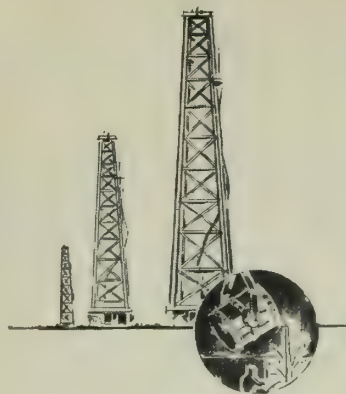
cle (June 15) in which Leon Levy, the head of Oppenheimer & Co., expressed the opinion that the stock market would right itself with the help of large, good-balance-sheet blue chips. But Carney's idea about blue chips deserves, at the very least, a respectful hearing; he knows a great deal about them for someone of his age. Before getting his own funds, he had worked for four years as a portfolio manager at the staid U.S. Trust Co., and then for three years for Lionel Edie in Los Angeles, where he was manager of one of the State of California's pension trusts.

"I suppose that in a way I agree with Levy's investment approach," says Carney. "But I don't see why one has to limit one's investing to large—and in most cases essentially boring—companies. And I completely disagree with the inference that growth companies are dead, that money can no longer be made in companies like these. If the so-called balance-sheet approach is

good for large companies, why can't you apply it to smaller companies? There certainly are plenty of smaller companies around with just as sound balance sheets as some of these so-called blue chips, and a smaller growth company has so much further to go."

This essentially is the line that T. Rowe Price and Arnold Bernhard took some 35 years back in a market that was recovering from a severe depression. More recently it has been peddled by such financial highfliers as Fred Carr and Fred Mates. So it is at least tempting to reply, "So what else is new?"

And yet, what Carney says about small growth stocks being a good investment can often be true, and in good markets generally is true. Much of what he has to say makes solid sense, especially when he talks about his investment choices in those most basic and pragmatic terms—that is, return on equity, what the company produces and how it is managed.



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The Money Men

"So far," he says, "we've invested in 30 companies that are what I call growth companies, and they all have as sound balance sheets as any around. When I invest in a company, the first thing I look at—and I get about 100 ideas or suggestions a day—is return on equity. If a company doesn't have at least 15% or better, I won't even consider it.

"The reason I look at return on equity is that I think it's the best way of telling if a so-called healthy company has control of its own destiny—that is, can finance its own expansion internally besides controlling its product's market. I don't think we're going into a depression; but I do think that companies, especially the smaller ones, are going to have trouble getting financing for the next few years, so it's essential that a company can provide its own financing one way or another.

"The companies that we're into so far are mainly one-product companies that have a certain control over their markets and whose product people will buy almost regardless of how much it costs," says Carney. In other words, what Carney would call a "razor-blade" type of company.

It is only when Carney starts to describe the kind of company he likes that he begins to sound almost more like a venture capitalist than a pure stock market investor. "Well, you see when I was living in Malibu I wanted to put down some floorboards out on my porch. So I went to this store called Standard Brand Paints, which is a chain in Southern California, and the place is fantastic. It may sound run of the mill, with the name and everything, but once you've gone to one you're sure to go back when you need something for the house. On top of this, they have a 28% return on equity, and they're so conservative, they don't even lease their stores, they own them. . . .

"Then, you see, I went to buy some fish, and it's no longer like getting those goldfish you used to get in the round glass jar with everything included except the cardboard box of fish meal. You've got to get a tank and a filter and other fish to keep the fish company and then a thermometer, and by the time you've left the store you've spent \$100 at least, and you'll probably go back. And in most stores all this stuff is manufactured by a

single company named Sternco."

Then Carney rapidly ticks off several companies in his portfolio and why he likes them: "The beauty of McDonald's Hamburger is that it's recession resistant. A housewife may decide that she can cook chicken cheaper than Kentucky Fried, but she knows that she can't make hamburgers as cheaply as McDonald's. Velcro? Last year it made \$3.5 million on sales of \$12 million, and this year it will be marketed by 3M wherever Scotch Tape is sold. Can you imagine that? A razor-blade company, that's what it is, just like Swingline." Carney readily concedes that some of his choices may prove to be mistakes—like the mistakes he made on Frank's Nursery and Olsten Corp., among others. But he feels that most of them should soon be going up.

Against the Current

It's all very logical and pragmatic and down to earth, and if the market does start to go up, some of these stocks should rise. Unfortunately most of those he has bought so far are down, and both of his funds are down about 20%.

"May and June were really tough," says Carney. "When we started the two funds back last August, it was pretty rough, because everyone kept telling me that the market had reached its bottom at 840 and that I'd missed the rally by putting all the money in commercial paper. I was right, at least then, but then I started investing in early May because I thought and still think that most of these companies have reached their bottom. But it was pretty difficult investing when every 24 hours your decision looked wrong.

"Now I do think that we've hit the bottom and that the market is on the way up. Because of it, there will probably be some announcement soon by the Administration that inflation is slowing. Stores like Macy's have no inventories left, and will soon have to start replenishing them. And my father, who is in the air-conditioning business, says that you have to look at the real wholesale prices, which are deflating much more rapidly than the so-called list wholesale prices."

Again, it's all very logical and reasonable, and perhaps the market will act in a logical way.

Just this once. ■

Empire Reborn

An echo from decades past, the name Patino is again becoming a force to be reckoned with in the world of mining.

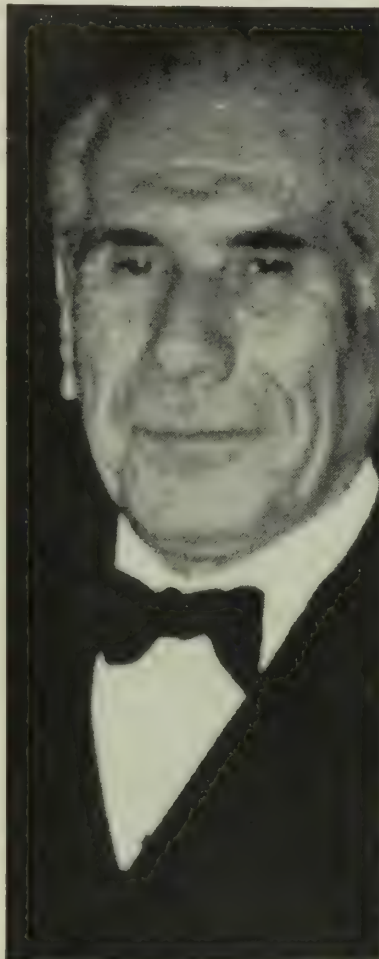
WHEN the Bolivian tin mines were nationalized in 1952, the Patino family shifted from the business pages to the society pages. The five children of founding father Simon I. Patino had lost the Andean mines that were the original source of a family fortune once estimated at \$2 billion. They were far from broke, however, having long since spread their investments across the world. They went on throwing lavish parties in palatial villas all over Europe. Nor did they allow the Patino name to die out in the business world.

Today the Patino Mining Corp. is alive and well and run from Toronto by a Canadian team headed by Edward Erskine Carter. It is listed on the Toronto Stock Exchange and has 4,500 minority stockholders who own 43% of the 4.3 million shares. Why Canada? "Partly for the stable political environment, partly for the tax structure," says Carter.

Though no Patino is active in the company, they still control it. And, like the Patinos, the company is global in scope. Says Carter: "When the Bolivian assets were nationalized, the family still had interests in tin smelters in England and tin mines in Nigeria and Malaya. The team we've put together here turned the company into a diversified metals group with interests in mining, smelting and marketing. We've got a good-sized copper stake here in Canada, which is expanding. We're developing another in Spain, and hope to do the same in Mexico. There's a \$200-million nickel operation getting started in New Caledonia in which we are a 30% partner. That is going to be our biggest payoff in the next decade."

PMC itself is pretty small; 1969 revenues were \$23 million. But it controls 60-odd companies around the world with revenues of \$900 million. Behind it all lies the Patino family corporation, Cobanisa, incorporated in Panama, which holds a 57% interest in PMC. Antenor Patino, Simon's eldest son, is PMC chairman, and two other family members sit on the board.

By the time in 1952 (*see box, p. 36*) that poverty-stricken Bolivia finally shook itself free from the iron grip of the Patinos, they had long since moved most of their wealth beyond the grasp of their native land. So tightly did they control world tin markets that the Bolivian government had no choice but to continue dealing with Patino middlemen in order to sell the



Big Spenders. The five children of Simon Patino have far to go to match him in lavish spending: He kept mansions all over the world that he seldom even visited. But Simon's eldest son Antenor (above) is coming along. He threw a party where 1,200 people drank 1,800 bottles of champagne and 600 bottles of whiskey. He settled the Patino expropriation claim against Bolivia in a novel way: In return for a small indemnity to the family, Bolivia agreed to legalize divorce—thus recognizing his second marriage. The Catholic Church excommunicated lawmakers for that. Before 1952, the Patinos complained that steep export taxes robbed their mines of almost all profit. But a UN Technical Mission found tax evasion by wealthy people to be extremely widespread.

tin that was the backbone of its economy. And not only that: Bolivia wound up paying the Patino family a \$10-million indemnity.

Although the Patinos continued to jet-set around Europe, they put a good many of their interests into Toronto-headquartered PMC, including, of all things, the Bowie Race Track in Maryland and the Freehold track in New Jersey. In 1957 they brought Erskine Carter in to run and expand the businesses.

"Before I got here, the family invested in a copper property in Quebec," says Carter. "I was a lawyer acting for the vendor in that deal, and they had no North American management at the time. They turned around and asked me to look after things. What they said was, 'Do something with these properties.'"

Carter decided to put together a completely new Patino mining group. He recalls that "copper prices fell out of bed just when we took over the property—they went from 50 cents a pound to 24 cents." By putting together a mining team and expanding production anyway (from 500 tons to 2,700 tons daily), he was sitting pretty when prices rose again (to a recent 62 cents).

Tiny PMC impressed the Patino family in the way they understood best—by making money. PMC's revenues rose 27% between 1964 and 1968. Earnings rose 54% in the same period. "We had demonstrated competence," says Carter, "and the family was more than willing for us to take over other mining operations." Which explains how three tin companies based in Britain and controlled by the family came to be reorganized two years ago as the Consolidated Tin Smelters group (1969 revenues: \$212 million), with 56% (later 70%) control transferred to PMC in Toronto.

Last year, Carter went a step further. The English tin companies already had a 38% interest in Amalgamated Metals, another British holding company with \$643 million in revenues last year. With the family giving the green light, Carter increased that minority interest to 52%. When the smoke cleared, his little Toronto company sat at the top of a pyramid of companies that included 100%-owned British Metals Corp., 46%-owned (and U.S.-based) C. Tennant Sons, Henry Gardner Co., and another 60 companies around the world that were chiefly metal traders.

For all of this, the Patinos are not entirely happy with what is happening in Canada. Once again they are talking of pulling up stakes and transferring their headquarters elsewhere. The recent unpegging of the Canadian dollar is raising export prices of Canadian minerals, making them less

competitive. Moreover, new Canadian tax proposals threaten to subject some of PMC's non-Canadian earnings to Canadian taxation. That the Patinos do not like. "If these taxes go through," says Carter, "we may have to reconsider the base of our operation here."

So, once again, the Patino interests may pack up and move. But that's nothing new for them. And with the New Caledonia nickel operation promising big things to come for them in the next five years, Patino will remain a name to be reckoned with in the world of mining. ■

From Rags to Rolls-Royces

MEN like Simon Patino know no loyalty except to family and to wealth. A ruthless, almost unlettered man, he rose from abject poverty in the desolate Bolivian Andes to riches and international glitter. A man of mixed blood, despised by the tiny Castilian minority that ruled Bolivia, he came to dominate the country. Far from remembering those who shared his humble origins, he oppressed his labor and exploited his native land.

Patino started as a small trader in the 1890s, and, legend has it, was a sharp and not very scrupulous card player. The story goes that he grubstaked tin miners and got his first mine in settlement of a gambling debt. The tin mines weren't worth much then. Tin was used mainly for pewter and for church-bell casting. But then came the hot-dip process for tin-plating,

and the tin can was born. Backed by British money, Patino became the tin king of the world. World War I made his fortune. In the Twenties, Simon Patino was ranked with the Rockefellers, the Rothschilds, the Nizam of Hyderabad and others as one of the richest men on the globe.

Patino went on to buy banks,

Simon Patino



railroads, steamship lines and help pay for the disastrous Gran Chaco War with Paraguay, which in the Thirties decimated Bolivia's manpower. As his country's biggest taxpayer, Patino made and broke governments and lorded it over the fair-skinned Castilian elite. Still snubbed at home because he was dark and half-Indian, he got himself appointed Bolivia's Minister, first to Madrid, then to Paris, and settled in Europe, surrounded by luxury. He married his eldest son to the niece of the King of Spain (they later were divorced), his other children into the nobility and top European industrial families. During the worst years of the Depression, he kept a fleet of Rolls-Royces.

In later years before his death in 1947 (at age 86) he still had his money, but the mining part of the business started going sour. The Hochschild and Aramayo interests broke his Bolivian tin monopoly. The electrolytic tin-plating process cut demand for tin. Mines in East Asia (some partly Patino-owned) glutted the tin market. As a result, the Patino heirs did not greatly grieve when the Bolivian government took over the mines. They had lived in Europe for years, and the bulk of the family's investments since 1920 were outside Bolivia. Even then, they had the last laugh: So tightly did the Patinos control the world's smelters and distribution of tin that the Bolivians had to market their ore through the family. Today Bolivia's tin still goes mainly to Patino-controlled companies in England for smelting, and tin prices have improved lately (\$1.60 a pound vs. \$1 in 1952).

There are persistent rumors of bickering among the Patinos over their inheritance, but the present head of the family, Simon's eldest son Antenor, is the image of a courtly Old World gentleman. Now 75 years old, he divides his time between estates in France and Portugal, throws lavish balls and collects Old Masters and antiques. Bolivia, the source of his patrimony, remains as steeped as ever in poverty, violence and ignorance.





Culver Pictures

There's a lot of talk today about the new approaches to media advertising selection.

Demographics are out.

Life-style is in. Psychographics. Attitudinal motivations.

It's *how* you spend your time and money that counts

Occupation? Education? Social Position? Just relative terms. So are the old reliables like Age, Sex and Marital Status.

Advertisers must reach the doers. People who move things and other people.

It's not the cost of the car you drive. It's how many cars you have to own.

It's not where you've been. It's where you're going.

Not whether you party. It's how often.

Not just owning stocks. It's running companies.

Just having is out. Action is in.

Involvement.

You've got to reach those who participate if your ads are to pay off.

Are FORBES readers in?

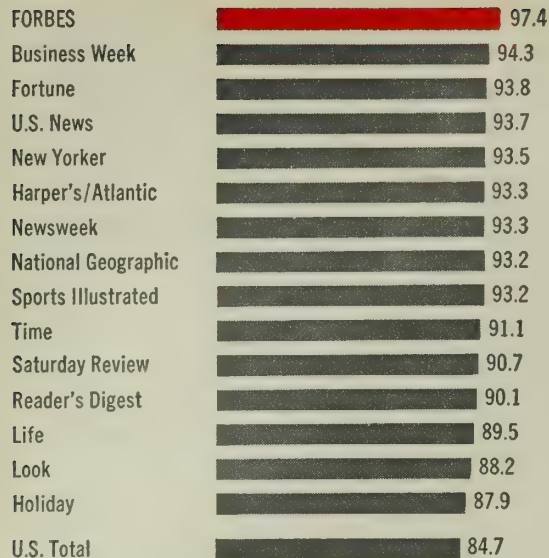
All those dull demographics show that FORBES readers are consistently found in the highest echelons of income, education, occupation and social position.

Obviously hard-core establishment.

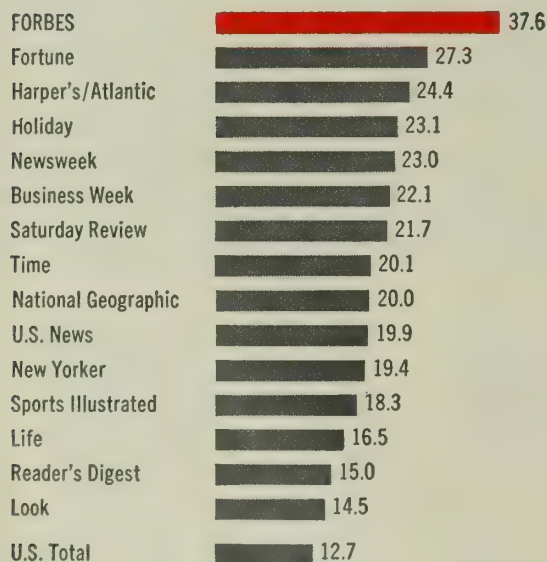
Stuffy? Staid? Out of it?

Not so! Take a look at the life-style comparisons which follow. They prove that FORBES is where the action is. And you better believe it.

% ADULTS OWNING A CAR



% ADULTS WHO HAVE PURCHASED THREE OR MORE NEW CARS IN PAST SEVEN YEARS



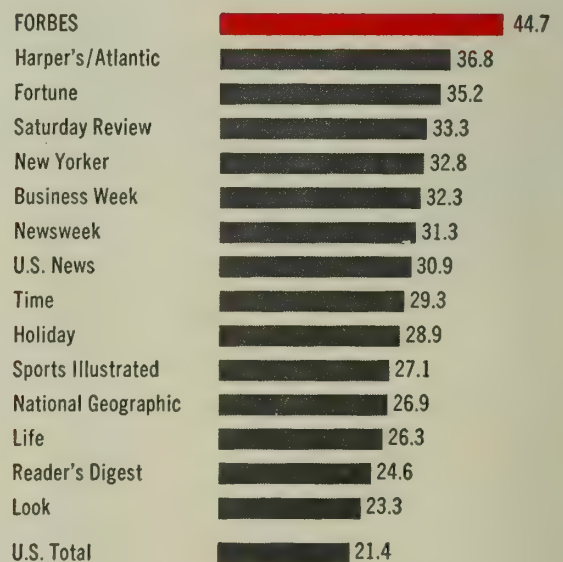
% ADULTS OWNING A CURRENTLY VALID PASSPORT



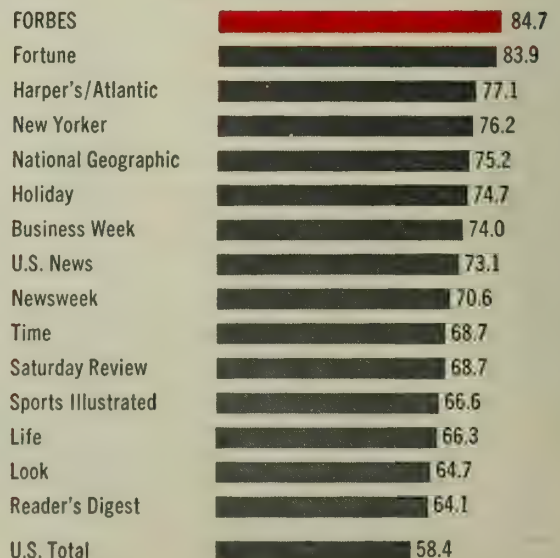
% ADULTS OWNING TWO OR MORE CARS BOUGHT NEW



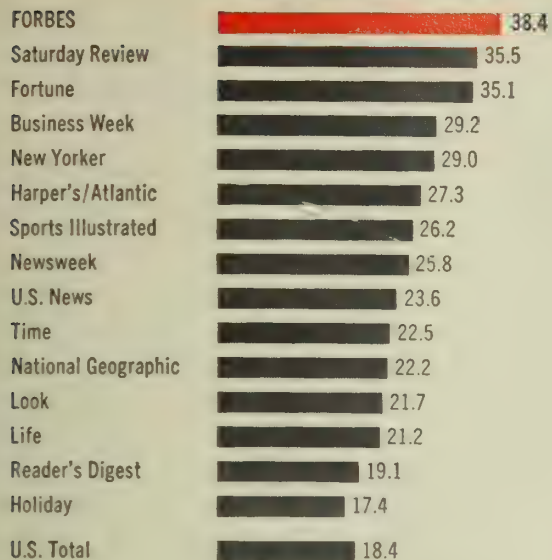
% ADULTS OWNING 1968 OR NEWER CAR



% ADULTS OWNING ONE OR MORE CREDIT CARDS



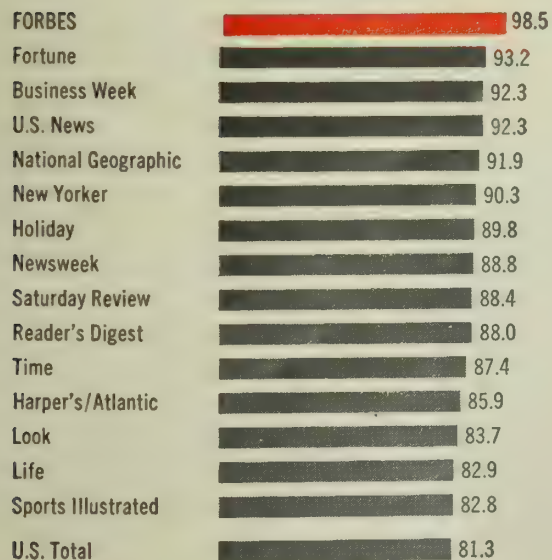
% ADULTS WHO ORDER DRINKS
FROM THE BAR BY BRAND OF LIQUOR



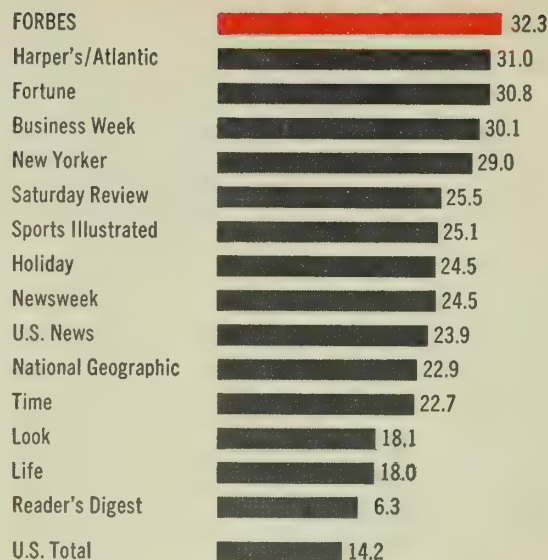
% ADULTS WHO PERSONALLY DRANK
SCOTCH IN THE PAST MONTH



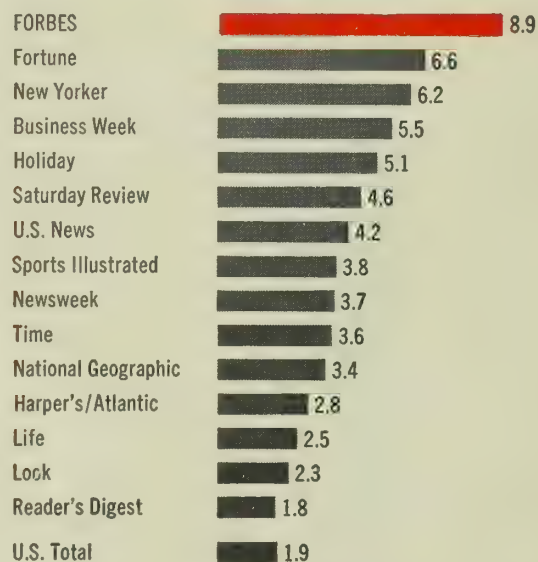
% ADULTS INVOLVED IN ONE OR
MORE PUBLIC ACTIVITIES



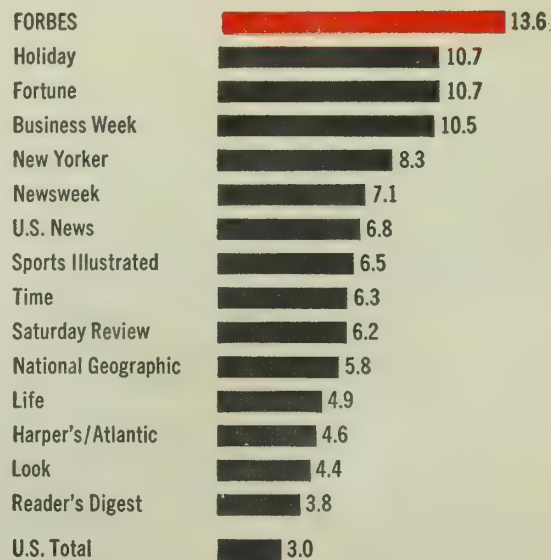
% ADULTS USING BOURBON IN THE
HOME IN THE PAST MONTH



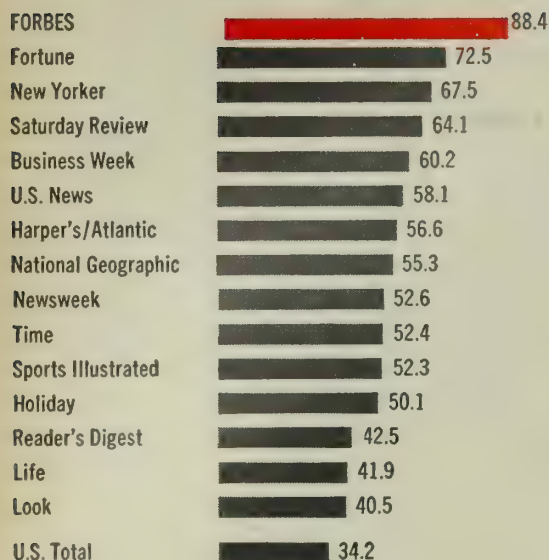
% ADULTS USING TWO OR MORE
BOTTLES OF GIN IN HOME IN
PAST MONTH



% ADULTS WHO CURRENTLY
BELONG TO A COUNTRY CLUB



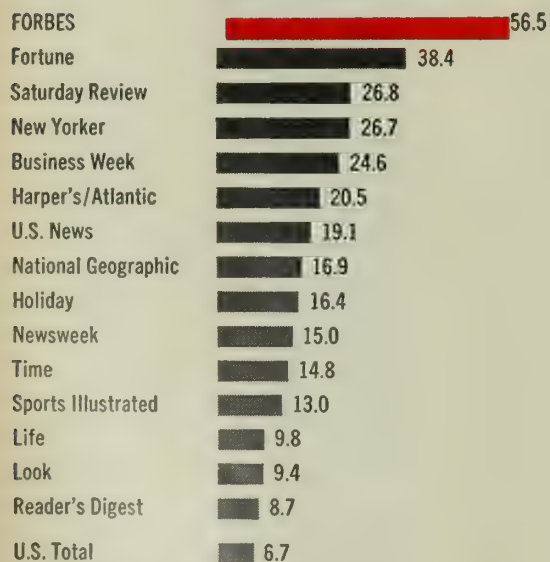
**% ADULTS WHO OWN STOCKS,
BONDS OR MUTUAL FUNDS**



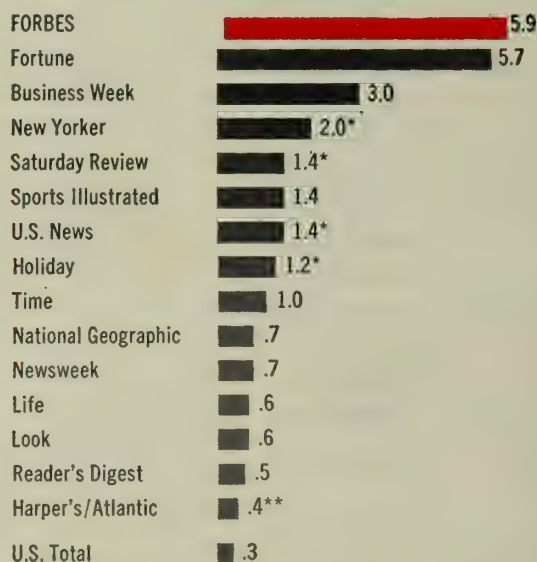
**% ADULTS OWNING SECURITIES
WORTH \$100,000 OR MORE**



**% ADULTS PURCHASING CORPORATE
STOCKS IN OTHER COMPANIES
IN PAST TWO YEARS**



**% ADULTS WHO HAVE MADE OVER
25 STOCK TRANSACTIONS IN THE
PAST 12 MONTHS**



*Projection relatively unstable because of small sample base
**Number of cases too small for reliability

Source: 1970 Simmons Study

These comparisons of audience concentrations from the 1970 Simmons Study are just a small sample of the swinging statistics which prove, would you believe...

FORBES readers are a groove.

In addition to the fact that...

FORBES readers don't just own American business.

They run it.

Forbes: capitalist tool

Venture Capital, Corporation Style

Backing new companies is a big trend among dozens of the biggest names in American business. But their reasons go deeper than making a quick buck.

A BILLION-DOLLAR COMPANY trying to branch out into new areas doesn't have an easy time of it these days, what with unfriendly antitrusters and new accounting rules making acquisitions more difficult. Internal expansion, through a company's own research and development efforts, is no picnic either. R&D in brand-new fields is very expensive, and fresh ideas often get bogged down by bureaucratic conventionality and the need to concentrate on existing product lines.

Most troublesome, though, is the people side of the equation. Coming up with new product ideas and then making them pay off in big profits are two very different things. True entrepreneurial types, the kind of men who can make a new venture go, are becoming less and less enthralled by giant corporations, salaries and stock options of uncertain worth. They'd rather start their own companies and be their own bosses.

As a result, dozens of alert big companies, including Alcoa, Boise Cascade, Coca-Cola, Dow Chemical, du Pont, Ford, General Electric, International Paper, Mobil Oil, Singer, Standard Oil (N.J.) and Union Carbide, have adopted a new style of corporate play. In addition to acquisitions and internal R&D, they are making what essentially are venture-capital investments in promising new technology fields. Some are company startups; others are already going concerns. Some are private outfits; others are already traded publicly. All, however, offer these giant companies the opportunity to marry their own vast resources with the talents and taste for risk-taking that is possessed only by the true entrepreneur.

"In a big company like General Electric with a big overhead and rising research costs on current projects, there is not the time, money or expertise to start up a lot of promising products," says T. Walton Storm, president of GE's one-year-old investment subsidiary, Business Development Services, Inc. "You need some guy in a small company who already has started out working 18 hours a day for peanuts on something we may have missed. On the other hand, he probably is a technical man who abhors administration or who may need accounting or manufacturing help. GE has an abundance of such managerial skills and other resources."

Storm himself is an investment man who previously worked on GE's pen-

sion fund, went to Bessemer Securities, then was rehired by GE on its new corporate planning staff. So far, Business Development Services has invested some \$5 million in seven small companies, and plans to invest another \$5 million in several others.

Marging Them In

GE's investments thus far run "between 20% and 45%" of each company, all of which are privately held. GE concentrates on privately held outfits, says Storm, "because we ultimately hope they can be merged into the corporation as a new department or part of an existing department, though the majority stockholders could decide to go public if they wanted to."

This is why Storm's group is very choosy about what it invests in: "There has to be some ultimate relationship with one of our existing businesses." For example, two investments are in the information-processing field, one company making core memory devices, the other in software. A third has an electrostatic device for coating material with plastic powder. "This could eventually fit into our plastics department or even lead to a new way for insulating electrical wire."

One of GE's most promising investments, says Storm, is in the Avant, Inc. of Concord, Mass. which makes photographic systems which, in minutes, produce a finished, sealed identification card with full-color pictures of the subject. Storm thinks that this system, with its innovations, is superior to Polaroid's similar ID-2 Land Identification System, such as used on drivers' licenses in several states. The ID

card, says Storm, would fit neatly into GE's existing and growing line of plant and bank-protection equipment such as alarms and closed-circuit TV systems. "Such ID cards could be sold as commutation tickets, inserted in toll machines on highways and in subways until their value is used up," says Storm. "The applications could be endless."

Forest products producer Boise Cascade (*FORBES*, July 15) has gone into little companies for similar reasons. One of its ventures is a 25% interest in Communications Research Machines, Inc., a publishing company. "We have options to buy the other 75%," says a Boise Cascade vice president, Charles C. Tillinghast III (the son of TWA's chairman).

General Electric also is considering another investment idea: licensing unused GE patents along with cash in budding new companies that have related ideas for new products or processes. Licensing technology is nothing new, but actively marketing patents in this fashion is. National Cash Register, North American Rockwell, Celanese, Owens-Illinois and others are also doing this.

The licensing can work the other way too. Ford's venture group owns a minority investment in little (\$10-million-sales) Thermo Electron Corp. in Waltham, Mass., the brainchild of Dr. George Hatsopoulos, an ex-MIT professor. Hatsopoulos is a specialist in thermionics, a method for converting heat directly into electricity without moving mechanical parts.

"Ford put up \$4 million and we put up \$2 million to try and develop

Diving For More Than Pennies. Marine technology is one of the hot, new fields that have attracted the investment of big outfits in little ones.





Practical Professor. His thesis at MIT inspired Dr. George Hatsopoulos to start Thermo Electron Corp., one of Ford's new investments and now prime contractor in an HEW project for a low-emission auto engine.

a new steam engine," says Hatsopoulos. "For this Ford gets 133,000 options to buy TE stock at \$85. We get all the rights to the engine, but Ford gets the license to produce it for automobiles with TE getting royalties for that. We wanted Ford not so much for the money as for the services that only the large-scale manufacturer of engines can give. A little company would not be able to mass produce such an engine."

Often the investment by a big company in a little one starts out with a client-consultant relationship. Such is the case of International Paper and Mobil Oil, each with minority interests in Bradford Computer & Systems, Inc. Bradford was started in 1968 by two ex-vice presidents of the First National City Bank and two former executives of Computer Applications, Inc. Bradford helped IP and Mobil set up and operate their computer systems. Bradford Computing, in turn, also has put anywhere from \$5,000 to \$50,000 in seed money in five other tiny concerns.

Perhaps the most complex investor-client-consultant relationship involving large and small companies is the corporate mitosis practiced by Ocean Science & Engineering Corp. of Washington, D.C. (1969 sales: \$8.6 million). About a third of Ocean Science, a specialist in undersea exploration, is owned by Alcoa, Fluor Corp., Southern National Gas Co., Amerada Hess Corp. and South Africa's Anglo-American Corp.

In one venture, Ocean Science is designing an undersea exploration ship for Alcoa, which owns about 7% of OS&E. Alcoa and OS&E have already formed a company, Ocean Search,

Inc., to operate that vessel.

So far, neither Alcoa nor OS&E have made money out of the deal, since the vessel has been under construction. "However, it is the instrument for furthering the use of aluminum for marine construction," says Alcoa vice president William Woodward, who also sits on OS&E's board. OS&E itself is counting on the success of such risky projects to recoup its current losses. It ran almost \$500,000 in the red last year and \$346,000 in the red in the first three months of this year.

It Takes Time

The renewed success of a little Ocean Science & Engineering (it was profitable in 1967 and 1968) depends a great deal, of course, on how long its big investors stick with it.

GE's Storm thinks big outfits have to give new outside projects like these five years to make it. "Even then, you have to figure that out of every ten investments made, two or three will go down the tube, three or four will rock along and the remainder may prove outstanding."

In the early Sixties, for example, du Pont had more than a dozen or so ventures going. Now it is down to a handful with varying prospects. In 1962 du Pont took a minority position in Block Engineering, a manufacturer of infrared instruments set up by a group of optical physicists in Cambridge, Mass. "Dana Laboratories, a test-equipment maker on the West Coast, was profitable in its second year and does about \$15 million a year in sales," says du Pont's Everett Yelton, former director of the development department and now assistant general manager of the plastics department. On the other

hand, du Pont and Battelle Memorial Institute's wholly owned subsidiary, Scientific Advances, have a 50-50 deal in the Holotron Corp. of Wilmington, Del., where the payoff is definitely long range. Holotron's bag is holography, in particular the use of powerful lasers to project a 3-D six-foot-by-six-foot movie on the wall. "This is five to ten years out," says Yelton.

The fact is that there is no hard and fast rule as to the payoff expected and the time it will take the big corporate investor to get it. It all depends on what the company is and what fields it has entered. Diversified Technologies, Inc., the Singer Co.'s investment subsidiary, is less than two years old. It has put some \$3 million in a series of small outfits, making everything from microwave components to high-speed magnetic tapes. Yet DTI's boss, Gilbert Kennedy, says his aim is to "see progress within three to five years," with 25% or more return on investment from some ventures by the third year.

By contrast, consider the patience of Jersey Enterprises, Inc., set up in 1964 by Jersey Standard to start new business ventures. Jersey Enterprises' President Eugene McBrayer thinks it may be a decade before one of them, Jersey Nuclear Co., begins paying back the millions already poured into it. Staffed with some 30 nuclear power experts hired away from outfits like GE and Westinghouse, Jersey Nuclear will make fuel for nuclear plants, but is only now starting to build its fabrication facilities near Hanford, Wash.

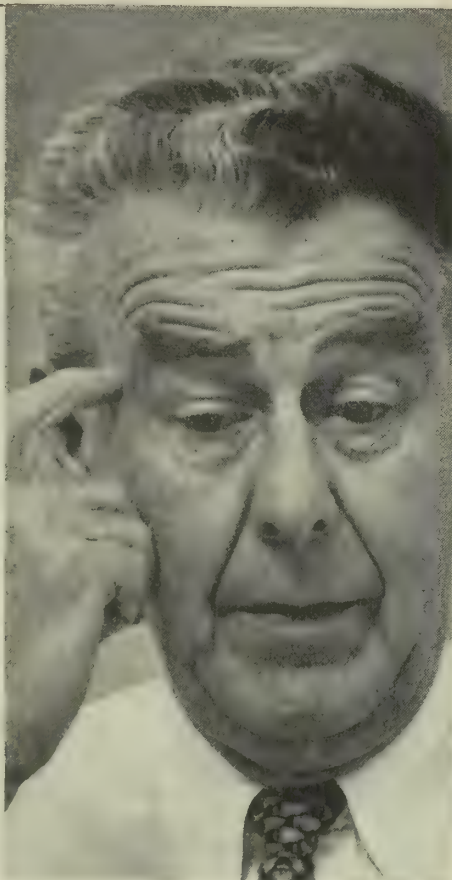
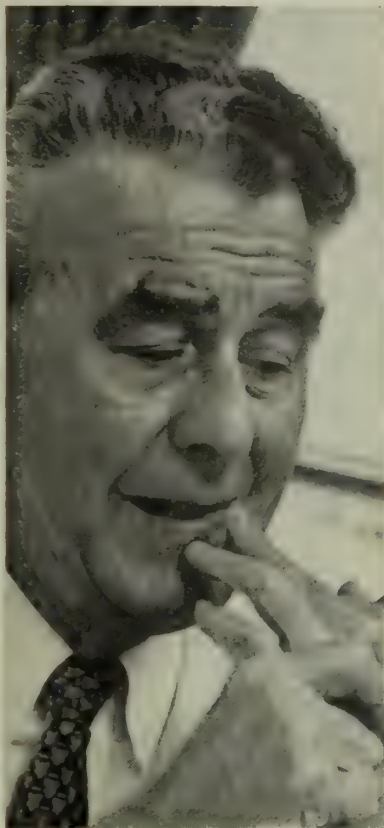
At Coca-Cola, Chairman J. Paul Austin's motive for making venture capital investments is to train managers for the parent company (*FORBES*, July 15). Though new, Austin's method is not unlike that developed by Minnesota Mining & Manufacturing (*FORBES*, Sept. 1, 1969). The big difference is that 3M develops its entrepreneurs from *within*. The man who develops a new product at 3M may get phantom shares of stock in the division that product may create. Not everybody can do what 3M does, though, because 3M is so diversified.

Thus are some very large and wide-awake companies attempting to lay to rest the old idea that giant corporations lack the flexibility to cash in on fresh, innovative, new technology. At the same time they are cushioning the impact of the corporate brain drain of recent years, in which thousands of young, highly talented scientist-entrepreneurs have "spun off" from large corporations to start their own outfits.

The result is a telling argument against the critics who maintain that big corporations and entrepreneurship don't mix. ■

Faces Behind the Figures

Schwab of Anaconda



Of Stern Necessity

WHEN Charles E. Schwab first went to work for Anaconda some 18 months ago, he may have been looking for mainly a place to hang his hat. A tall, gray-maned Ohioan, Schwab, now 55, had been head of Bunker Hill's lead-zinc-silver operation in Kellogg, Idaho; and when Gulf Resources took over the company in May 1968 Schwab abruptly walked out. At Anaconda he first ran North American mining operations, then all primary metal production except aluminum.

Schwab's timing could hardly have been better. Within six months, Chile had demanded (and got) a half interest in the Chilean properties that normally yielded over 75% of Anaconda's profits. So North America became Anaconda's second line of defense.

Anaconda's second line has proved much stronger than some outsiders feared. Its basic Montana operations, Schwab concedes, are still in the higher-cost range though these costs are dropping. "Competitively," Schwab says, "our mine at Yerington, Nevada can probably

match any major mine in the country, while Twin Buttes, our big new mine in Arizona, is more than competitive with the newer type of large-scale, low-grade open-pit operation like Pima's or Duval's."

But with copper prices at near-record levels, Anaconda's problem these days is less cost than it is output. Chile clipped \$50 million or so off Anaconda's profits last year, and though rising Chilean production and a \$5-million management fee will soften the blow, another \$50 million will be clipped this year. To meet Chairman Jay Parkinson's prediction that 1970 earnings will match 1969's \$99 million, Schwab will have to scratch.

He has. Overall, Schwab figures Anaconda's North American production this year will rise by 40% (from nearly 200,000 tons last year)—primarily because the Twin Buttes mine is now in operation and because Anaconda has been able to expand its Montana output. On this 40% increase alone, Anaconda's North American earnings could rise from \$25 million in 1969 to over \$35 million—without allowing for the rise in U.S. copper prices from

an average of around 47 cents a pound in 1969 to 60 cents currently.

All this, Schwab makes clear, is just a start. Besides expanding existing U.S. and Mexican mines, Anaconda will be getting new production later this year in New Brunswick and British Columbia, and will probably soon put into development four major U.S. properties it has had on the shelf for years. These latter alone could more than double the company's present North American production.

"Our goal," Schwab says, "is to increase our North American output by two-thirds over the next five years. The trick is to coordinate this with what you think is going to happen in the marketplace over those years." And, as if thinking of Anaconda's Chilean problems, he adds: "What we're doing are things that *have* to be done."

If this seems like an ambitious program for a man who has been with the company only 18 months, it is. But Schwab was no stranger to Anaconda. "I'd known so many of the men well for so long," he says, "that I could just walk in the door and feel right at home." ■

Oh, What a Lovely Inflation!

NOT EVERYONE is railing against inflation these days. Certainly not Harry John Hyams. As the flames of inflation leap higher, he throws logs on the fire. For the worse inflation gets, the richer he gets. In The City, as London's financial district is called, it's taken for granted that Hyams has profited more from inflation than any other man in the United Kingdom and possibly in the world. About three years ago, by prodigious digging, Oliver Marriott, the financial editor of the London *Times*, was able to put together a rough estimate of Hyams' personal fortune—£27 million, or \$64.8 million. That fortune has since ballooned.

The secret of Hyams' success is that he makes a practice of keeping office space untenanted—1.25 million square feet in metropolitan London, 768,000 of them in central London.

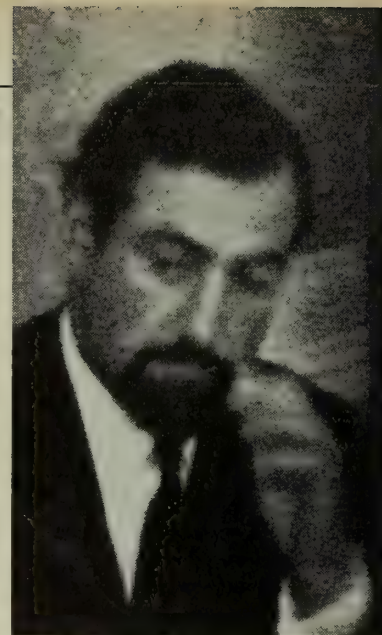
Hyams has kept Centre Point, 32 stories, 300,000 square feet, completely empty since it was finished. He has done the same with Space House, 237,000 square feet, and with London Bridge House, 155,000 square feet.

He's not crazy, but some people think maybe the law is. In November 1964, the Labour government, for a variety of reasons including the problem of congestion, put a ban on constructing new office buildings in London. There was then more than enough office space in the city, but as the economy grew, the demand for office space also grew. Shortages developed; rents soared; in the past 12 months alone they have doubled.

Hyams has aggravated the shortage by keeping office space off the market.

The beauty of his policy is this: An office building's value is determined by the rent it can bring. As rents soar, the value of Hyams' properties soar. If they rise quickly enough, as they have been doing, the capital gains will more than compensate for the cost of maintaining the building and carrying the mortgage.

Hyams, a tall, elegant man, with a neatly trimmed Spaniard's beard, has proved this. The son of a book-maker, he acquired his real estate company, Oldham Estate, in 1959, when it was little more than a shell, with assets of less than £25,000. Hyams was then 31. By 1967,



Hyams of Oldham Estate

when Marriott made his study, the assets of Oldham Estate stood at £60 million, or \$144 million.

Today he's worth far more. And while most of his fortune is tied up in bricks and mortar, Hyams, who actively shuns all publicity, manages to scrape out enough income to live in splendid obscurity at his \$1.4-million Charles II home in Wiltshire. ■

Ice to Eskimos

HE RESEMBLES a breezy operator in a 1930s movie, with slicked-back hair, pencil moustache, glistening cuff links, flashy bow tie and big cigar. When he speaks, he comes across as half circus barker, half camp-meeting evangelist. "To be a superachiever," he exhorts listeners, "you've got to develop PMA—a positive mental attitude."

His name is W. (for William) Clement Stone, 68-year-old founder and chairman of Chicago-based Combined Insurance Co. of America, which he set up during the 1920s to sell small accident and health policies at low premiums. Egged on by Stone's ceaseless exhortations, his salesmen roam through factories and office buildings selling, say, income-protection policies for sickness and accident victims, or, more recently, so-called Little Giant life insurance policies averaging only \$2,400 in face value. The premiums are low but so are the claims paid out: Where casualty insurers struggle to break even,

Combined Insurance typically nets close to 20%.

There can be no doubt that Stone has put together a highly successful operation. Since 1960 Combined's revenues have grown from \$43.7 million to \$194.8 million, its earnings from \$4.4 million to \$26 million. His personal fortune, estimated at \$400 million, enabled him to be the largest single contributor to President Nixon's campaign.

In the last few years Stone's sales army has been selling accident and health policies in, of all places, countries with socialized medicine. A snake-oil trick? Not so, says Stone: "The Government takes care of your hospital and medical bills, and our policies give you some personal income while you're out sick." Premium volume in Britain has doubled in each of the last five years, and the company has also made a strong showing in Australia and New Zealand.

"I don't think a national health plan is coming here," says Stone, "at least not in the next few years. But if it does, we'll be ready." ■



Stone of Combined Insurance



Cho of C.Y. Tung

Hands across the Pool

SHIPOWNERS with supertankers love economies of scale. Marine insurance companies don't. Stimulated by increasing tanker values and three supertanker explosions last year, insurers have almost doubled premiums in 12 months. Last year a hull-and-machinery insurance premium for a 200,000 dwt. (dead-weight ton) tanker was about \$350,000. The 1970 annual premium is \$680,000.

"That is too high," insists Morley Cho, 59, New York-based partner of Hong Kong's C.Y. Tung, one of the world's leading independent shipowners. "Due to their lack of experience with supertankers, the insurance companies have reacted out of panic. They do not yet have the figures for basing premiums on sound actuarial principles; the supertankers haven't been operating long enough."

Cho, a Shanghai banker and insurance expert before coming to the U.S. in 1948, is urging independents to pool together to spread

the risk on hull-and-machinery insurance costs.

Does this mean shipowners would go into underwriting? "Not so," says Cho. "We want to work with underwriters by taking on the bottom layer of risks ourselves." Ideally, Cho would like to see the oil majors—who have gigantic fleets of their own—come into the pool too, along with the Norwegian owners' pool.

Cho contends that the oil companies are likely to join in. "The pattern has already been established with TOVALOP," he says, referring to the international tanker owners' association for pollution disaster research and mopping-up operations, of which the oil majors are the largest members.

Is Cho, who received his MBA at Wharton in 1937, just rate-rattling to scare the insurers? Perhaps. But independent shipowners may have as many as a dozen supertankers each, and more on order. At a \$700,000 premium per tanker per year, that's a hefty incentive for cooperation. ■

Reverse Synergy

FORGET that two plus two equals five. Strike "synergy" from your vocabulary. The new conglomerate math for the Seventies is that five equals three plus three. William Duke, chairman of Whittaker Corp., even has a three-syllable word for it. Duke calls the new direction "pluralism."

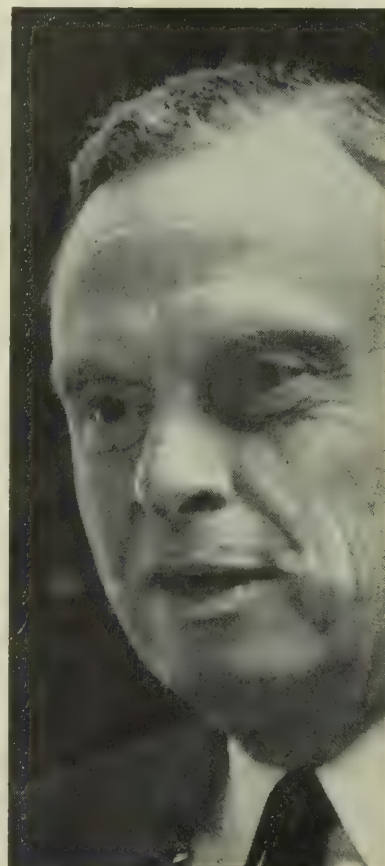
James J. Ling, former Ling-Temco-Vought chairman, used the partial sale and/or spinoff technique as early as 1965. But this spring *FORBES* (May 15) predicted that U.S. business was entering the period of the divestiture and the partial spinoff—Duke's "pluralism." Since then Fred R. Sullivan, chairman of \$786-million-sales Walter Kidde & Co., Inc. has become one of the new era's early practitioners. So far this year Sullivan has sold off 30% of the stock of Globe Security Systems, Inc. for \$11.4 million and is selling off one division (Grove Mfg.) for \$36.8 million. He has also announced plans to sell off part of the stock of two other divisions, LeFebure-Sargent Corp. and Light-nig Corp. of America.

Just as conglomerating needed its elaborate rationalizations, so now

does deglomerating. Selling part of the stock of a subsidiary to the public gives the new company "greater visibility," says Sullivan. Managements will have "a new feeling of responsibility."

But the main reason for a partial sale, as Sullivan points out, is to enable the new company to command a higher price/earnings multiple than the conglomerate parent. Thus, while Kidde stock sells at only six times earnings, it was able to market 600,000 shares of Globe at \$19 a share, 19 times earnings. This accomplishes two things. Globe now has a high-priced stock with which to make acquisitions (which Kidde itself can't make because of its low multiple). And Kidde now has an additional \$10.6 million in its treasury. In short, companies acquired with the idea that two plus two equal five are gotten rid of so that the five can equal three and three.

But shouldn't Kidde stock fall in value when earnings are sold off? "In a highly theoretical way, yes," concedes Sullivan. "But if we sell it at a high multiple, then the money we get can be redeployed to produce earnings or used to reduce fixed [interest] charges." ■



Sullivan of Walter Kidde

"The Board just asked me to increase the yield on our excess cash without hurting liquidity.

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In non-financial corporations, the ratio of cash and Governments to current liabilities has shrunk by roughly 50 percent over the last 10 years. And receivables collections have slowed to a crawl.

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- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
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service price index related to the consumer price index)

Income

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U.S. Dept. of Labor initial unemployment claims)

STOCK ANALYSIS

By Heinz H. Biel

Summer Rally



INVESTORS were happy to find out that Wall Street is not a one-way street, at least not all the way. At the same time the traditionalists, who look into the past for a clue to the future, were pleased to see that there can be a solid summer rally even in a most miserable bear market. It has been a good rally so far, broadly based, led by investment-quality stocks, and carrying the industrial and utility stock averages to new recovery highs. The rails, still suffering from the Penn Central shock, were natural laggards.

Everyone, of course, asks himself whether this is for real or just another one of those bear market rallies that tempt the investor to commit his reserves prematurely. Some technical analysts remain frightfully bearish. They not only doubt that the May lows will hold, but glumly predict that the DJI may go down to the 500-550 level. Listening to them can give you the creeps.

I do not share this extreme pessimism. While far from being a rip-roaring bull, I see some hopeful indications that the worst may be over. The action of the bond market dur-

ing the past six weeks has been impressive. Despite a veritable flood of new offerings, the rate of interest on long-term investment-grade bonds (rated "A" or better) has declined more than one-half of 1%. Rates are still very high, but there is a strong feeling among monetary experts that the trend is down and that a level of 7½% to 8% by year's end may be in the ball park. This would compare with a peak of 9.35% for the prime-rated N.J. Telephone bonds last June. The narrowing of the yield gap between bonds and stocks is a favorable development, making earnings and dividends on common stocks more valuable.

Some second-quarter earnings reports were really bad, and the number of dividend cuts and omissions has risen sharply. Yet, the market as a whole did not collapse, nor did the directly affected stocks (viz. Allied Chemical with a 40% decline in net in the June quarter). On the other hand, the market now responds to good news, with Chrysler advancing 10% in one day merely because it got out of the red, and American Cyanamid making a new high for the year just because its earnings did not go down. Immunity to bad news and respon-

siveness to good news is another favorable sign.

Finally, the contraction of the general economy is slowing down. We will probably still see further declines in industrial production and some increase in unemployment, but these will be of relatively minor proportions. There could be an upturn in business activity in the final quarter of the year.

Inflation, of course, hasn't been licked by a long shot, but its pace is diminishing. The Administration's determination to control inflation at all costs has definitely weakened in recent months. Nevertheless, any moderation of inflation will be beneficial, and it will also make it possible for interest rates to decline further.

None of these developments give sufficient cause for exuberance, but they should serve to dispel some of the deep gloom that has pervaded Wall Street. We are not out of the woods yet. A possibly prolonged strike is looming in the auto industry next month. We may also see further corporate insolvencies. But, again, those possible adversities would not come unexpectedly. They are as well discounted as appears to have been the case with recent poor earnings reports and dividend cuts.

Good Growth at Reasonable P/Es

Investors have become gun-shy about growth stocks. Their experience during the past couple of years has been costly. But there is a great difference between actual, honest-to-goodness growth and projected or manipulated growth. Take a look at Purolator, Inc., a medium-sized (\$137

Mr. Biel is a partner in the New York Stock Exchange firm of Emanuel, Deetjen & Co.



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million sales) company with a ten-year-plus record of rising per-share earnings, which holds promise of surpassing last year's peak of \$3.84 a share by perhaps as much as 10%. This would be quite an accomplishment in a recession year like 1970. Purolator stock made its all-time high early this year at 71½ and then plunged to a low of 42. Now it is selling around 47, or less than 12 times estimated earnings. Purolator makes a great variety of oil, gasoline and air filters for the automotive market as well as various other industries, and in recent years Purolator has diversified its activities to include courier and armored-car services and others.

Associated Spring also can look back over a decade of uninterrupted annual increases in per-share earnings, and while it is not certain that another record will be set this year, even matching the \$3.23 a share of 1969 would be a creditable showing. Presently the stock is selling only a fraction above its low for a year and at a P/E of less than eight.

Baby Blue Chip

By today's standards *Associated Spring* is a small company with a sales volume of about \$125 million a year, but it is the biggest company in its field as a manufacturer of precision mechanical springs. Its dependence on the original-equipment automotive market has been reduced over the past several years to less than one-fifth. A regular dividend payer since 1934, AAS is in good financial condition, and management owns a very substantial amount of the outstanding stock.

A third company with a solid ten-year record of rising per-share profits is *Eagle-Picher Industries*. At 19, the stock is also selling at a multiple of only about eight times earnings for the past 12 months. EPI sells a broad variety of industrial products to other manufacturers. Growing diversification has lent stability to its business and lessened its former cyclical character. The company has been a steady dividend payer for 35 years.

U.S. Tobacco is another medium-sized company with a fine growth record. The company has made various acquisitions in recent years, diversifying its operations. Profits in 1970 are likely to reach an all-time high of \$2 a share. Selling at just over ten times such earnings and yielding better than 5%, the stock should appeal to conservative investors.

The shares of none of these four companies enjoy a broad market, although all are listed on the New York Stock Exchange. It is essential, therefore, that orders be placed carefully. ■

TECHNICIAN'S PERSPECTIVE

By John W. Schulz



Thesis: A Flat Major Trend

Most people's stock market views are colored by a deepseated habit of projecting past trends into the future. This may have been chiefly responsible for the apparent rise, during June and early July, in the number of investors who thought it all but inevitable that the bear market would take yet another deep plunge.

Very understandably, in the climate created by last May's panic, such fears seemed only too plausible, and there was little willingness to accept the Administration's "line," followed by a number of private analysts, that the economy either hit bottom in the second quarter or would do so in the third. This skepticism was clearly expressed by the collapse of price/earnings ratios for a great many stocks to levels so low that they seemed to reflect no advance discount whatever for either a cyclical earnings recovery or for a resumption of longer-term earnings growth at any time. To numerous investors, these low valuations seemed to say instead that much worse was yet to come, perhaps a deep commercial and financial crisis in the U.S. and, consequently, a worldwide business depression.

Technicians seem as prone as anyone else to take this extremely dim view by way of rationalizing a projection of the future as an extension of past trends. A popular dictum holds, after all, that a trend will continue until it is reversed. Self-evident as it is, this dictum is also a truism—which some dictionaries define as a proposition that states nothing not already implied in one of its terms. But truisms can be most persuasive, so it is not surprising that many technically oriented investors felt justified in giving weight to a variety of chart projections that seem to foreshadow an eventual further drop in stock prices to a final bear market bottom in the low 500s of the Dow, or even lower.

To my mind, these projections are suspect, perhaps partly because I instinctively distrust plausible stock market truisms, but in the main because we now have a considerable body of evidence substantiating the Federal Reserve's firm determination to abort any liquidity crisis in the fi-

nancial markets (see these columns for recent months). If the threat of such a crisis is thus more apparent than real, another stock market panic should not be inevitable. And barring another panic, projections of a collapse in stock prices to levels far under last May's lows must, I think, be rationalized principally by assuming a) that corporate earnings during the second half of 1970 will be much worse than recent severely depressed stock valuations appear to allow for; and/or b) that corporate earnings will not be rising again until long after year end. The first of these premises strikes me as not very tenable, given the great attrition in price/earnings ratios that has already taken place. The second premise, too, seems weak because, almost certainly, monetary and fiscal policy will be at least moderately stimulative over the next six to 12 months.

Foundation

Therefore, I think it is more sensible to persist in the view that the overall stock price movement since late May has been tracing out, and will continue to do so for some time ahead, a major-trend base structure by means of which the bear market can be reversed and the groundwork for a new bull market established. I am encouraged in this view by the fact that the stock market's retreat from the initial post-panic rally provided a first successful test of the panic lows. Moreover, the setback (June 3-July 7) exhibited some of the technical characteristics usually associated with a secondary reaction—relatively low share turnover, no acutely climactic selling in "breadth" and a marked rise in odd-lot short selling. Secondary reactions, by definition, run counter to the direction of the basic, "primary" (or major) trend, so the appearance of one should mean that the major trend is no longer down.

Nevertheless, I doubt that the stock market can stage a big, prolonged advance any time soon. Accordingly, I envisage an essentially flat major trend for the next several months, in the shape of a broad trading range, with highs in the Dow 720-750 range and conceivably including at least one test of the 630-670 zone. ■

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STOCK TRENDS

By Robert Stovall



The Junkman Cometh

STUDENTS of annual reports and older analysts who have gained humility with the passage of time know that the proper way to read an annual report is in the same fashion as one scans a Chinese newspaper; from right to left. That is, begin with the notes to the financial statements, move through the facts and figures while your attention is keenest, wade through the descriptive material and read the management's inspirational message last.

Now every professional is aware of balance sheet analysis or claims he is. This group's early practitioners, including the author, shared a feeling of inferiority through most of the 1960s when this type of work produced little but yawns. People seemed more interested in following the exploits of "teenage" money managers who had reputations long before they had earned the cost of their MBAs. But now analysis is back in style and "stories" and wild earnings projections are out of style. There's a new cult in the making and it's going to be very different from the last one.

Because of the trauma caused by the depth and breadth of the 1969-70 bear market, earnings estimates and dividend durability will be suspect for another nine months or more. People will look for other things: underlying value in terms of latent earning power; assets; consumer franchises; the ability to recapture or maintain the same relative position in their industries held during easier times.

This might be called a scavenger's market. The great fortunes that may come out of the current calamity will probably be produced by entrepreneurs like the late Joseph P. Kennedy. These men used maximum leverage to buy companies or portfolios of some of the deepest depressed equities, expecting a casualty or two.

For the smart scavenger, classical tools of the analyst trade come in handy. Perusal of a list of recognized growth stocks will show many whose share prices, over a five-year period, have gained substantially smaller percentages than have earnings; in other words their price/earnings ratios are lower today than they were five years

ago. After all stock dividends, distributions and splits, holders of some of these stocks are only about even after five years, and those who bought in during more buoyant times are breathing through some very long straws. For those interested in faded favorites, some of these stocks are extremely attractive right now (see table below). They are at or near bargain levels, partly because of the general market and partly because they have had short-term problems with earnings or earnings projections.

What about value-seeking among industries that were clawed the worst by the bear? From December 1968 to mid-July 1970, the Dow-Jones industrials had declined 30%, the Transportation index 57%, and the Dow utility stocks 31%. But during the same time period Standard & Poor's group stock indexes showed far wider swings in performance. The weakest groups were motion pictures, down 74.3% and aerospace, off 69.5%. But these battered groups may not be just bargains after all. There is real question about the viability of these industries as now constituted, and some of the underlying assets themselves have questionable value. Only seekers after the most battered stocks should use these industries as a gathering ground.

Representative of the better-quality equities in each group are *Columbia Pictures* and *United Aircraft*.

As a matter of fact, I would rather do my bargain-hunting in some groups that have fared better than the market. Down less than 5% are drugs (off 4.8%) and cosmetics (off 2.8%) although some of the better-known names in these industries have had a severe experience. It is generally conceded that drugs, cosmetics and health sciences will be key growth areas for the "socially-oriented 1970s."

The medical and personal-care industries have the creative ability to convert unfulfilled desires into effective demand. Busy research programs have been responsible for myriads of products to extend the life cycle, to maintain health levels, foster comfort and enhance beauty. Irrespective of the business cycle, the health-care industry is locked into a growth pattern of its own, bolstered by the birth rates of developed countries, more numerous health-care facilities, a population mix heavy with the very young and the elderly, multiplicity of medical-care programs, populations educated to expect medical services and the rising number of working women, who make cosmetics a necessity, not a luxury.

On this thesis, shares of companies possessing accepted brand names, strong marketing, competent research and, especially important, financial liquidity, are worthy of any would-be bottom-picker's attention.

The old aphorism that it's not so much what you buy as when you buy it, has particular pertinence near bear market bottoms. The value hunter, the smart scavenger, will be aware of this into the fall and winter. ■

Five Growth Stocks

	Five-Year Price Performance			Earnings Per Share Gains		
	6/30/65 Price	6/30/70 Price	Change	1965	1969	Change
Ampex	15	16¼	+ 8%	\$0.90	\$1.30	+ 45%
Control Data	39¾	34½	-13	1.07	3.20	+190
FAS Int'l	7	7	0	0.55	0.88	+ 59
IBM	149⅞	250	+67	4.40	8.21	+ 87
Polaroid	28⅞	53	+85	0.92	1.90	+107

Value in Cosmetic, Drug and Health-Science Shares

	Recent Price	1970 High	Latest 12-Month Earnings	Latest Book Value	Long- Term Debt (millions)
Carter Wallace	127⅞	35¼	\$1.73	\$ 8.88	Nil
Faberge	15	36½	1.52	11.85	\$8.3
Parke, Davis	147⅞	35⅞	1.16	14.28	Nil
Rorer-Amchem	247⅞	30⅞	1.24	4.92	\$0.18
Shulton	18¼	42½	2.43	16.64	Nil
Statham Inst.	10	31¼	0.52	5.50	Nil
Syntex	23¼	69¼	1.84	9.41	Nil
Upjohn	42	59½	2.48	17.74	Nil

A guest columnist, Mr. Stovall is a partner in the NYSE firm of Reynolds & Co.

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OVERSEAS COMMENTARY

By George J. Henry



The New Old Guard

In the international field, the great surprise of June was the election of the Tory Party in England. The political consequences of this unexpected change from Labour are great. The economic consequences are no less important. While Harold Wilson's Labour government did not have the militant left-wing outlook of the Clement Atlee administration, and in some ways could be termed "liberal" rather than "socialist," there seems to be little question in international banking circles that the Conservative Party commands a greater degree of confidence. Whether this is justified or not is hardly the question; the fact remains that it is so. In some respects perhaps insufficient credit has been given to the major improvement that has taken place in Britain's balance-of-payments position under the tutelage of Harold Wilson in the last 12 months.

Edward Heath has made a number of important electoral promises, both in the internal and international fields, and now it remains to be seen how well he lives up to them. He has promised to reduce government expenditure and to reduce taxes. Tax reforms are apt to be of such a nature as to increase incentives all around, especially at the managerial level. It will be interesting to see how he aims to do this in view of the prevalent British problem of inflation, and the fact that, while the balance-of-payment position has improved, it still has to be watched very, very carefully. Hopefully, to some extent the slack will be taken up by an increase in production, but unless the remainder goes into savings, as opposed to consumption, Mr. Heath is headed for trouble.

In one respect the new Conservative government can be considered to have received a national mandate, and that is in reforming trade-union and labor-relations laws. In the dim and distant past employers had it all their own way, and there could be no question that strong trade unions were needed to protect labor. The pendulum, however, has swung in the opposite direction, and now we have reached the stage, both in the United Kingdom and in this country, where, in many instances, the trade unions can hold a pistol against the head of the nation, and unquestionably hurt

the general good by pursuing exaggerated sectional aims.

It will be a tough job to tackle this situation, especially as Mr. Heath's majority in the House of Commons, while it gives him a reasonable margin for day-to-day government, is hardly an overwhelming majority. In many ways it is also a pity that it falls on a Conservative government to have to propose such measures; it would have been poetic justice if the Labour Party had been put in such a position as to be forced to curb the powers of the trade unions, though probably it is unrealistic to expect the situation ever to arise, in view of the fact that most of the funds of the Labour Party come from the trade-union movement.

Common Market Prospects

In the international field, Mr. Heath is a confirmed European, and his first problem will be to see what he can do to bring Britain into the fold of the Common Market. Negotiations have been formally opened in Brussels for Britain, Denmark, Norway and Ireland to gain admission, and the hard bargaining should start by the fall. Mr. Heath is uniquely qualified for guiding Britain toward Europe. Not only has he had experience at the Board of Trade, but he was the principal negotiator of the previous Conservative government in its abortive attempt to gain the admission of Britain to the Common Market.

Negotiations will be long and difficult, with a great many thorny problems arising, not the least being how Britain's other partners in the European Free Trade Area, Switzerland, Sweden and Austria, will receive some sort of associate membership in order to retain the advantages of the reduced tariff barriers achieved by the EFTA. It is impossible for these countries to apply for full membership, in view of their avowed neutrality, and the hope for political integration of the Community in the future.

There is every indication, however, that the basic principles of the European Common Market, which were regarded as utopian by so many in the mid-Fifties, and which have already gone so far toward fulfillment, will be further advanced in the next few

years. No one can expect the negotiations to be fast; so many of the problems are real, and of vital importance, but every hope can be expressed that with goodwill they will be solved, that a greater economic community will be formed, and that during the next decade or two we shall be well on the way toward that utopian goal, the United States of Europe.

Joining the Common Market is not a panacea for Britain's ills. On the contrary. In the case of the industries where Britain is strong, membership will prove to be beneficial. But in many industries, where weakness is evident, and where the British unit of production is far too small, a possibility of some industries disappearing should not be ruled out; and the marginal industries will have to fight hard for survival. Certainly, British labor's productivity will have to match that of the Common Market. This, in conjunction with the necessity for increased productivity mentioned above, may be the great testing point. Many people have stated that the principal problem of England, since World War II, has been the unwillingness or the inability of the British to work. Here is their chance to prove this wrong.

The Gainers

Marketwise I have discussed previously the stocks which would gain most from a British entry to Europe. *International Vintners & Distillers* and the giant *Distillers Corp.* were mentioned favorably and there is no reason to alter this opinion. Among other industries, the British chemical industry stands well but does not seem to be developing as fast or attracting as much capital as the chemical industry of Europe. British entry into the Common Market should rectify this, and the already prosperous European branches of *Imperial Chemical Industries*, for instance, should benefit from not being separated by tariff barriers from its parent company in England.

In the electronics field *Plessey* with its very aggressive management should benefit considerably. The British woolen industry still occupies its traditionally strong position, and the entry of tariff-free woolen goods to Europe would do it no harm. But the already ailing English cotton industry may be hurt further.

Of course, British knowhow excels in the fields of insurance and banking, and even today the city of London is regarded as the greatest teacher in these fields. Any increase in trade should benefit these two industries, but the benefit they will gain will be enhanced by what should become easier access to the city of London for European capitals. ■

KEYSTONE CONSOLIDATED INDUSTRIES - INC. Common Stock Dividend No. 200

DECLARED BY THE BOARD OF DIRECTORS ON
JULY 21, 1970

AMOUNT:	50¢
RECORD DATE:	AUGUST 7, 1970
PAYABLE:	SEPTEMBER 8, 1970

KEYSTONE



CONSOLIDATED INDUSTRIES • INC.
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DIVIDEND NOTICE

The Board of Directors of Ford Motor Company at a meeting held in Dearborn, Michigan, on July 9, 1970, declared a third quarter dividend of 60 cents per share on the Company's outstanding stock, payable September 1, 1970, to stockholders of record at the close of business on July 31, 1970.



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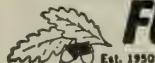
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The Board of Directors has declared a quarterly dividend of 33¢ per share on the Common Stock, payable September 15, 1970, to stockholders of record on August 21, 1970.

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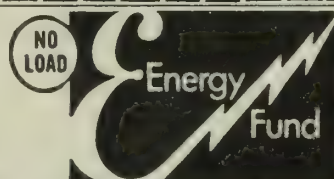
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WALL STREET VIEW

By Charles Rolo



The Big Picture

THE CASSANDRAS, their dire prophecies fortified by the Penn Central debacle, are still insisting that the worst is yet to come. Eliot Janeway says the Dow will go to 500—and possibly 400. Notwithstanding the improved behavior of the market, a “fear depressant” is weighing on stock prices. None of this is news. What is news is the accumulation of developments that collectively suggest that the “big picture” is definitely improving.

One major goal of the Nixon “game plan”—to break the deep-seated inflationary psychology in the business and financial communities—seems to have been achieved. That the stock market has been thoroughly deflated is something we’ve known for quite some time, and all too well. But only recently has it become apparent that the inflationary psychology of business is moribund if not *kaput*. Corporations are pruning costs and (except for the utilities) cutting back significantly on spending plans. Thus the basis has been laid for profit margins to improve when volume does.

Meanwhile, not only has the rate of monetary expansion risen sharply in recent months, but it’s expected to stay relatively high—partly because of the liquidity scare and partly because of heavy Treasury borrowing in the money market in the second half of the year. It’s also believed that the Fed may presently reduce member banks’ reserve requirements, which would further boost the supply of bank credit. All this points to a gradual easing of interest rates, and the recent resultant firming of bond prices is, of course, a cheering portent for investors. Three out of four major stock market recoveries of the past two decades were preceded by upturns in the bond market.

The second-quarter showing of the economy makes it pretty clear that the 1969-70 recession will prove to have been one of the least serious since World War II. The second quarter also brought good news about the most critical of all problems. The trend of inflation, as measured by the GNP, fell back to a 4.2% annual rate—the lowest since the third quarter of 1968.

The consumer, who’s been in a con-

servative mood, is well primed to start stepping up his spending. His purchasing power is being boosted by the disappearance of the surtax and the hike in individual tax exemptions (together, \$5 billion), by rising wages, enlarged Social Security benefits and an easing of credit.

Argus Research has astutely observed that what is needed now for healthy (noninflationary) economic recovery is “a combination of business pessimism and consumer optimism. And that is the pattern that is now developing.” Equally encouraging is the mounting evidence that the transition from a wartime to a peacetime economy announced last month by President Nixon is actually taking place. It will eventually bring about a grand reshuffle of national priorities, away from defense and business investment and toward consumption, much-needed housing and improvement of the quality of life. All this has bullish market implications.

Please don’t misunderstand me. I’m not in any way implying that everything is coming up roses. There will be some further financial failures. The balance of payments is in an awful state. A prospective budget deficit of perhaps \$10 billion is a potential source of numerous problems. The scourge of inflation has been arrested but not vanquished, and it will be difficult to avoid a protracted period of slow economic growth.

These various problems and negative prospects have, I believe, been discounted by the large decline in stock prices. On the other hand, the encouraging trends within the big picture suggest that the fears of further calamity are in all likelihood unfounded. My guess is that by the time the “failure of nerve” has run its course, the price of many stocks is likely to be up 20% to 25%. If I’m right, the season for bargain-hunting has already opened.

One area of high promise, in view of the changing character of the economy, is that of consumer oriented companies with well-established products, strong marketing capabilities, sound finances, and a consistent growth record. My list of such includes *Bristol-Myers*, *Chesebrough-Pond’s*, *PepsiCo* and *Warner-Lambert*. ■

A guest columnist, Mr. Rolo is co-director of the Research Dept. of the NYSE firm of H. Hentz & Co.

The Funds

Another Icon Smashed

THE BEAR MARKET continues to take its toll of "big concepts." Latest to bite the dust is Competitive Capital Corp.'s concept of pitting five money managers against each other. The scheme was to reward the best performing manager with 30% of Competitive Capital's new business. The others would get proportionally smaller amounts, down to 10%.

Like a lot of other concepts, it worked well in the 1968 bull market. Competitive Capital rose 21%, three times the S&P 500. But in the 1969-70 bear market, Competitive Capital fell apart. In 1969 it was down 25%. So far this year it is down another 33%. Both figures are worse than industry averages.

So now Seaboard Corp., which bought Competitive Capital (and its smaller cousin Competitive Associates) last spring, is giving the funds a face-lifting. In July Seaboard brought in 32-year-old Jerome R. Randolph to head Competitive Capital. Randolph had been one of Competitive Capital's five original fund managers when he worked for O'Neil Management Co. It was a bit ironical that one of his first decisions at Competitive Capital was to toss out all five.

What went wrong? One problem was the choice of managers. Though selected partly to achieve a diversity of investment approaches, each of the five did poorer than

the averages in both 1969 and 1970. Randolph plans to replace them with three new managers: Bernstein-Macaulay, the \$250-million investment management subsidiary of Cogan, Berlind, Weill & Levitt; Cantor Management Associates, run by Richard Cantor (formerly head of Chase Manhattan Bank's \$4-billion investment advisory division); and Argent Management Corp. "Hopefully, we will never have to change again," says Randolph.

The other problem was the method itself. Take the fee structure. To earn the incentive performance fee of one-half of 1%, the manager had to double the performance of the Dow Jones industrial average. As a result, says Randolph, the five managers felt "they had to hit home runs every time they stepped up to the plate. It led to a tendency to speculate more than they should have." Randolph now graduates the incentive fee so that even a slight edge over the Dow is rewarded.

Don't Look Back

Yet another shortcoming, says Randolph, was the "very intense competition. You slugged it out on a day-to-day basis." For example, Randolph claims that in December of 1968 he sensed the coming market break and wanted to increase his cash position. But with only a slight lead over the other four fund



Randolph of Competitive Capital

managers in performance, he was afraid to unload any of his stocks. Result: He won the 1968 performance derby, but was heavily invested at the 1969 market break.

Under Randolph's new setup, the fund managers will meet monthly to discuss investment strategy. Instead of automatically paying off the leader with a bigger chunk of the new money to invest, Randolph will allocate the cash flow each week as he sees fit. "We are changing the whole emphasis," says Randolph. "Now it is a competitive team. Just because a manager is last doesn't mean he isn't doing a good job. Somebody has to be last."

In short, Competitive Capital has learned the hard way that short-run performance figures can actually hinder good money management. Unfortunately, the stockholders paid for the lesson.

Run, Fox, Run

SCUDDER SPECIAL FUND was like a fox on the lam from a pack of hounds. It had been playing the go-go game ever since the fund (net assets \$150 million) was founded in 1956. But by early 1969 those eager new go-go fund managers were picking up young companies selling at 40, 50, even 100 times earnings. "We just don't, constitutionally, like that," explains Lawrence Rubin, president of Scudder Special. "We like fundamental value." So Scudder dumped its Famous Artists and Denny's Restaurant for General Motors, Bankers Trust and American Telephone.

Now foxy Scudder Special is looking back smugly at the pack of foundering go-gos. "We got scared,"

Vice President John H. Boyer admits. "But now we're not suffering like some of the others." While the performance-at-all-cost funds fell as much as 60% in the first half of 1970, Scudder Special was off but 24%. "We've found you should be wary if other funds own a big piece of a stock with a high price/earnings ratio," Boyer says.

The cautious outlook comes naturally. Scudder Special is one of the offspring of the 52-year-old investment counseling house of Scudder, Stevens & Clark, which moved into mutual funds as early as 1928 to provide an outlet for small accounts. Now SS&C runs \$350 million in six mutual and \$112 million in two closed-end funds. By riding out the market crash after boosting its net asset value per share 69% in 1967 and another 21% in 1968, Scudder

Special ranks as the Cadillac of the group. SS&C's common stock fund hasn't done quite so well; it's down 30% since the first of the year.

For all its conservative instincts, Scudder Special, of course, is a special situations fund, and part of its job has been to buy companies with substantial book value selling at depressed market prices—Hawaiian sugar producer Castle & Cooke, for example. "Nothing dramatic about that," says Rubin. "But it owned an awful lot of real estate in Hawaii. We sold at a good profit." Then there was Hilton Hotels. It looked sweeter to Rubin than it did to some fund operators. "I felt that part of the depreciation charges in the hotel business should be considered earnings," he says. "Any of the hotels I knew were just as good physically a year later. So I added

The Funds

25% or 30%—this is very unscientific, to be sure—to Hilton's earnings, and I came up with a very low multiple. Even after Hilton's tumble, we've got a gain."

Rubin still dreams of running Scudder Special as he did in the old days. "I think we'll be getting back to what we were doing earlier," he says. "Special situations are coming along at reasonable prices now." For example, he's looking at publishing, an industry Scudder Special already has been in and out of twice. He has also pushed a little into bonds—once the realm of the ultraconservative money manager—and may push farther in that direction, with bonds yielding as much as 9% and also providing a good opportunity for capital appreciation.

But mainly Rubin is on the sidelines these days—holding 15% of the fund's assets in cash and concentrating 82% of his stock investments in New York Stock Exchange issues—watching imitators of Scudder Special take their beatings. Like the fox, he wants to live to run again.

Hopping off the Penn Central

SMALL INVESTORS weren't the only ones hurt by the collapse of Penn Central stock from 85 to 6 in the past two years. Some mutual funds also took a beating.

The most notable were three Investors Diversified Services funds and three Fidelity funds. At the end of the second quarter of 1968, with Penn Central near its all-time high of 86, the three IDS funds had 845,000 shares worth \$68.4 million, while the Fidelity funds had 457,300 shares worth \$38 million. By the time Penn Central stock hit 23 at the end of the first quarter of 1970, IDS had cut its holdings to 243,200 shares. But the Fidelity funds, which had increased their holdings to as much as 718,400 shares, still held 391,100, worth by then only \$9 million.

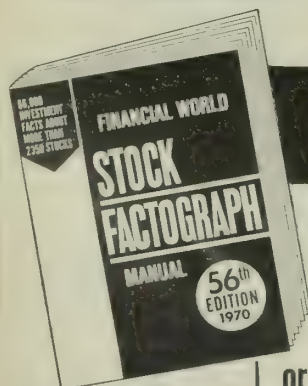
But in general, fund managers were able to cut their losses. At

the end of the first quarter of 1968, when the merger of the two giant transportation systems was completed, mutual funds held 14.3% of Penn Central's common stock, according to Capital Gains Research Bureau. Like other investors, they were counting on the merger benefits flowing into profits. By the end of 1968, with the stock still selling in the 60s, fund holdings had been cut to 11.4%. By the end of 1969, with the stock in the 20s, only 11 funds held just 4.4%. The bulk of that was held by Fidelity and IDS.

One fund even made money. Investment Company of America bought into both roads prior to the merger, at a cost of \$13.6 million. While others waited for the merger promises to turn into profits, Investment Co. unloaded its entire 266,500 shares for about \$17 million in the third quarter of 1968. Only a couple of months later, that Penn Central stock started its steady downward course that ended in June's bankruptcy. ■

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Trends & Tangents

(Continued from page 8)

have found it a satisfactory substitute for a letter.

Camping by Air

The airlines, with designs on a new market, have created a special lure by dangling a camping trip at the end of a plane ticket. By working with camp equipment outfitters, the airlines, including Trans World Airlines, American, Eastern, Northwest and Air Canada, are attracting family vacationers who want to reach outdoor recreation spots quickly, and take just enough of the city to be comfortable. Customers book round-trip fares through the airlines' ticket offices. When they land a fully equipped motor home, camper unit or car is waiting to take them to a camp ground or on a laid-out camping tour.

Refine American!

The President's special committee on the copper industry believes that one way to reduce the copper shortage is to ship concentrates overseas for refining. But not Anaconda. In recent months Anaconda has launched a multimillion-dollar program to expand and modernize its aged refinery at Raritan, N.J.: \$4.5 million to rebuild the electrolytic tanks, \$3.6 million for a semi-continuous casting installation.

Foreign Solution

A serious national gas shortage looms. At the current growth rate some 82 billion cubic feet per day will be consumed by 1980, but the domestic supply will be only 70 billion cubic feet. That is one reason a number of big companies—among them El Paso Natural Gas, Tenneco, Phillips Petroleum, Philadelphia Gas Works and Cabot Corp.—are starting to plow billions into foreign liquefied natural gas (LNG) facilities. The gas will be extracted from wells in Algeria and Venezuela, liquefied nearby, shipped by tanker to the U.S., then sold to distributors at about 60 cents per 1,000 cubic feet. Why not try to find more domestic sources? The government-regulated U.S. wellhead price, which results in delivery to the Northeast at 36 cents per 1,000 cubic feet, doesn't justify the expense, say gas producers. ■

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THOUGHTS... ON THE BUSINESS OF LIFE

A vacation is what you take when you can no longer take what you've been taking.

—EARL WILSON

Happiness is the supreme object of existence.

—J. GILCHRIST LAWSON

Take away play, fancies and luxuries and you will turn man into a dull, sluggish creature, barely energetic enough to obtain a bare subsistence.

—ERIC HOFFER

A good man doubles the length of his existence. To have lived so as to look back with pleasure on life is to have lived twice.

—MARTIAL

Wilderness to the people of America is a spiritual necessity, an antidote to the high pressure of modern life, a means of regaining serenity and equilibrium.

—SIGURD F. OLSON

Where nature is concerned, familiarity breeds love and knowledge, not contempt.

—STEWART L. UDALL

There are only three pleasures in life pure and lasting, and all derived from inanimate things—books, pictures and the face of nature.

—WILLIAM HAZLITT

The great omission in American life is solitude; not loneliness, for this is an alienation that thrives most in the midst of crowds, but that zone of time and space free from outside pressure which is the incubator of the spirit.

—MARYA MANNES

Seek simplicity, and distrust it.

—ALFRED NORTH WHITEHEAD

The first half of life consists of the capacity to enjoy without the chance; the last half consists of the chance without the capacity.

—MARK TWAIN

That action is best which procures the greatest happiness for the greatest numbers.

—FRANCIS HUTCHESON

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What availeth it if we become so engrossed in the pursuit of business or of money for its own sake, after we have earned a competency, if this pursuit unfits us for the enjoyment of the real, deep, satisfying things of life, if it blinds our eyes, warps our souls and numbs our better senses and sensibilities? The be-all and end-all of life should not be simply to get rich, but to enrich the world.

That man is richest whose pleasures are the cheapest.

—HENRY DAVID THOREAU

He that does good to another, does also good to himself.

—SENECA

Unnecessary hustle is one of the American follies. We hustle at both work and play, and consequently enjoy neither to the utmost.

—WILLIAM FEATHER

If all the year were playing holidays, to sport would be as tedious as to work.

—SHAKESPEARE

Human life is everywhere a state in which much is to be endured, and little to be enjoyed.

—SAMUEL JOHNSON

The world is a thing that a man must learn to despise, and even to neglect, before he can learn to reverence it, and work in it and for it.

—THOMAS CARLYLE

Don't overorganize your free time. Use leisure time for spur-of-the-moment impulses.

—ALEXANDER REID MARTIN

The thorough man of business knows that only by years of patient, unremitting attention to affairs can he earn his reward, which is the result, not of chance, but of well-devised means for the attainment of ends.

—ANDREW CARNEGIE

Go placidly amid the noise and the haste, and remember what peace there may be in silence. As far as possible without surrender be on good terms with all persons. You are a child of the universe no less than the trees and the stars.

—ADLAI STEVENSON

Happiness is the harvest of a quiet eye.

—AUSTIN O'MALLEY

A Text...

Sent in by H. G. Rogers, San Mateo, Calif. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

For the Lord thy God bringeth thee into a good land, a land of brooks of water, of fountains and depths that spring out of valleys and hills.

—DEUTERONOMY 8:7

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Koppers molds the sleek, rugged

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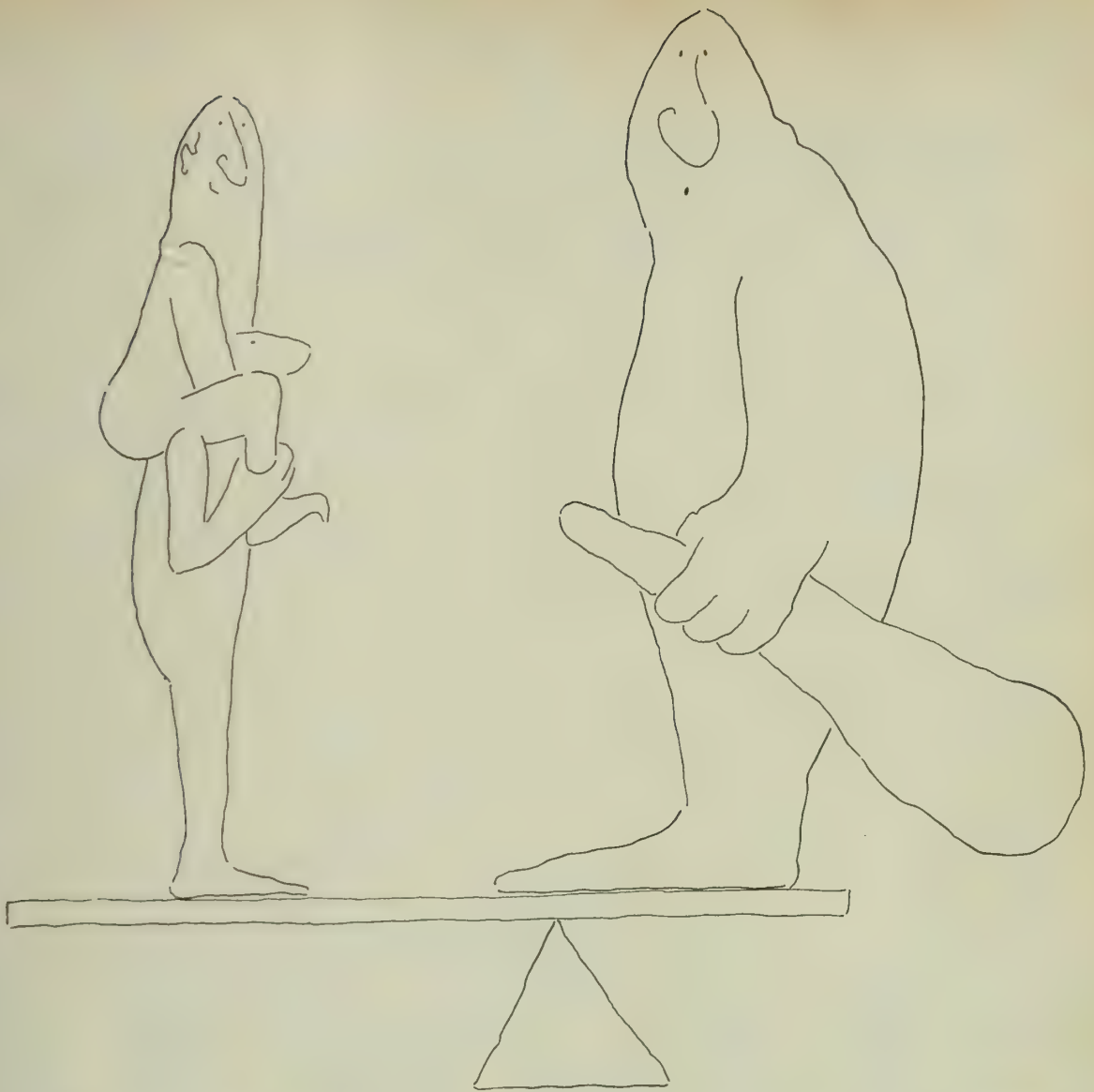
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Our cash flow is \$50 million a year. Our assets, \$430 million. Our sales, \$340 million.

All of which means we have more muscle to get more things done.

Now we can put more money in the segments of our business that are growing fastest. Or returning more on the dollar.

We can also get more things done sooner. Like a new mill on stream faster.

Or a new machine installed in

a new mill this year instead of next.

Leverage can help us move in many directions.

Especially up.

If you'd like to find out more about us, write to Peter Paine, Chairman of the Board, Great Northern Nekoosa, 522 Fifth Avenue, New York, New York 10036.

**GREAT
NORTHERN
NEKOOSA**
CORPORATION

**To take care of your wagon 50 years ago,
all you needed was oats for your horse and a hammer and nails.**

**But today if your wagon breaks down, you have to open a repair shop
hire a couple dozen men, and shell out about 50 grand.**

It's called progress.

Today, businessmen get a tear in their eye when you talk about horses and wagons and hammers and nails.

"Ah, the good old days," they say.

Today, businessmen get a tear in their eye followed by a pain in their stomach when you talk about money, too.

"Ah, the good old days," they say again, a little more emotionally this time.

Well, the good old days are over.

You can't repair your wagon for the price of hammers and nails anymore.

After you buy your equipment, it can cost you a bundle to take care of it.

But today, at last, businessmen are beginning to get the idea that there's a better, easier way than buying all their equipment. (This year, more than 10 billion dollars worth of equipment

will be leased by American business.)

This isn't any mystery to us.

After all, our Transportation division has been leasing tank cars to American business for years.

(It's not just chance that three-fourths of our new tank car production goes into our lease fleet.)

Yet some businessmen still insist on buying.

Maybe they don't know that if they sign the lease, they sign away their service and maintenance problems.

It would take them millions of dollars and years of experience to match our service and repair shops.

Or that if they sign the lease, they never have to worry about selling the car when they're through with it. That

becomes our problem.

Or that if they sign the lease, the car is theirs for the life of the lease, not the life of the car. That way, as innovations come along, they're in a better position to modernize their whole operation with new equipment.

What's more, when they work with us, they can call upon any of our other divisions for assistance on any job.

It can be for research. Or storage. Or packaging. Or even banking.

So now, perhaps businessmen who have been led astray in the past will learn the folly of their ways.

Because if they buy everything today, they could end up with nothing tomorrow.

And that isn't progress.

GATX

General American Transportation Corporation Chicago, Illinois 60601



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PHOTO AND ART CREDITS: United Press International, page 9; Bettmann Archive, pages 17, 21; Los Angeles Times, page 22 top; Ed Wergeles, pages 22 bottom, 47; Red Star, page 24; Wide World Photos, page 31; Bruce Davidson-Magnum, page 42; London Daily News-Pictorial Parade, page 49; Charts by Pete Di George.

COVER PHOTO: S.H. Tervinski

FORBES is published twice monthly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.

FORBES



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60 Fifth Ave., New York, N. Y. 10011

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Side Lines

A Letter from London

LATE THIS SPRING, FORBES sent Senior Editor Harold Lavine to London to report on British and European business. In addition to the articles he files for the magazine (in this issue, "New Bearings," p. 31), he occasionally fires off chatty letters to Editor Jim Michaels. Lavine is a sharp observer of human events. We thought our readers might enjoy some excerpts from Hal's latest:

"I stopped reading sports pages when I was 15, but I've started reading them again. You have to, in this country, if you're to survive.

"There's no other topic of conversation except garden-
ing. I arrived here during the General Election. No one talked about the election. Hell, the World Cup matches were on. When England lost the World Cup, it was as though a disaster had befallen. When Tony Jacklin won the U.S. Open, it was England's finest hour since the Battle of Britain.

"You pick up the *Guardian* and read, 'A Dark Day for England.' What happened? Jones of England came in only second in the 100 metres.

"Meanwhile, this country is in deep economic trouble. Yes, British management on the whole is extremely competent, but 100,000 Alfred P. Sloans could not save this country from another financial crisis.

"A few figures illustrate the problem. England has the lowest wage scale of any industrialized nation in Western Europe except Italy. Yet it has the highest labor costs in the world. The reason is that, if one man can do a job efficiently, the English seem to hire three or four.

"The dock strike was a *big* strike, but that's unusual. Normally, you have 16 people striking here, 38 striking there. These strikes may seem insignificant except for one thing: This country has craft unions in the mass-production industries. There are two dozen unions in the auto industry, for example. In some cases, you have two rival unions representing the same craft in the same plant. The result is that 16 people striking in the plant of a British Leyland supplier can shut down BL's truck assembly lines. Until the dock strike, imports of cars were increasing alarmingly, because the U.K. companies couldn't guarantee delivery.

"And this country is talking about joining the Common Market.

"Then, of course, there is the madness of socialism. England's high-technology companies, I'm told by Americans who should know, are very good. Unfortunately, there are obsolete companies in the U.K. too. Now how does socialism work? You socialize the companies that shouldn't exist. The coal mines are the prime example. Those veins were worked out two generations ago. How does the National Coal Board keep the money-losing mines open? By taxing the advanced industries. Meanwhile, the one hope of England for cheap energy is natural gas, and the Coal Board has fought it tooth and nail—with government money.

"One of the weirdest experiences you have is discussing these matters with an Englishman. He won't disagree with you, because he knows what you're saying is true. I met an editor of a left-wing publication. He said it was lucky in a way that the Conservatives had won, because a Labour government couldn't do anything about the unions. Why doesn't he say so in his paper? It's a Labour paper.

"Whatever the newspapers may say, the English don't get really upset by all this. They're sure God won't let disaster befall them.

"P.S. One thing I like about the U.K. is the Queen's English. The *Daily Telegraph* described Chet Huntley as a 'news reader.'"

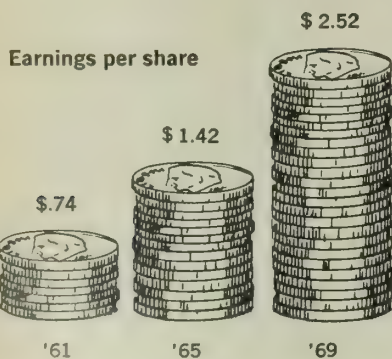


Tony
Jacklin

SWEET 16



a Pretty Percentage



Earnings per share at BLI have increased a sweet 16% per year since 1961. That's sweet music to an investor's ears and it's a tune we want to keep playing.

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'69 annual report.



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Trends & Tangents

FOREIGN

On the Go

Tight money apparently is not cutting into foreign travel. The Organization for Economic Co-Operation and Development reports that among its member countries the overall growth rate of tourism was 10% to 12% last year. This trend continues with travel to Europe and Japan (including the draw of the Osaka Expo) up more than 30% in 1970. With disposable income in Germany, Great Britain and the U.S., three of the major generators of foreign travel, due to rise more in 1970 than in 1969, the recent sharp growth is expected to continue.

BUSINESS

Striking It Rich

A major U.S. deposit of antimony has been found in Thompson Falls, Mont., and processing will soon begin at a new antimony mill, one of the nation's largest. John C. Laurence, president of Agau Mines, Inc. and U.S. Antimony Corp., said recent geological reports indicate the presence of about 330,000 tons of antimony and the possibility of other veins. Its versatility in hundreds of products from shrapnel to ball bearings and storage batteries to plastics has created a tremendous demand for the scarce ore. Until 1963, when it was cut off, the main supply came from China.

Read All About It

By the end of next year a new national daily newspaper, to be named the *Morning News*, is slated to reach hundreds of newsstands across the U.S. Inspired by *Le Monde* and the *Wall Street Journal*, it would be published Monday through Friday simultaneously in several cities, will never exceed 16 pages, and will keep advertising under 60% of total space. Its staff, consisting of some two dozen name writers working out of Washington, will emphasize news significance rather than ape radio and TV news coverage. Promoters Dun Gifford and Walter Pincus will aim first at "virgin" cities where no morning dailies now exist.

Cummins Engine Roars

"By 1970, all the pieces will be in place," said J. Irwin Miller, chairman of Cummins Engine answering his critics in 1969. He was right. After a sudden decline in 1967, when earnings plunged 78% on an 8% sales drop, Cummins has climbed steadily back up; the latest figures show earnings of \$11.7 million, or \$1.92 per share for the first half of 1970, up 17% from last year on a 12% sales gain. In light of these gains, Cummins is planning expansion of plants in Columbus, Ind. and in Scotland for a capacity increase of over 100%.

Everybody Out of the Pool

Halfway into 1970, the pool industry is watching its once-high hopes sink along with sales. Equipment sales may finish the year as much as 20% below 1969 levels. Even now, at the season's high point, some manufacturers are discussing laying off sales and production personnel. It isn't lack of financing that has helped drain buyers from the pool market, but rather a cool summer plus public wariness of spending while the economy remains sluggish. Said one dealer quoted in *Pool News*, "It's so bad, if I weren't the boss, I'd quit." ■

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READERS SAY

Power Solution

SIR: "To Keep the Lights Burning" (FORBES, July 15) was a most interesting and penetrating article on problems facing power companies today. I found it to be very enlightening. However, I should like to point out one discrepancy in the article; that being the implication that the Cincinnati Gas & Electric Co. has "stretched out depreciation schedules" to report better earnings.

Our currently effective depreciation rates have not been changed since 1958, at which time they were increased to reflect shorter estimated plant lives. We have strictly adhered to a policy of not voluntarily adopting any accounting options for the sole purpose of reporting improved earnings.

—MILES J. DOAN
Sr. Vice President,
Cincinnati Gas & Electric Co.
Cincinnati, Ohio

We're sorry. FORBES goofed and we're glad to set Cincinnati Gas & Electric's great record straight—ED.

SIR: My sincere congratulations to you on your recent article on the power industry. It achieves perhaps the two most critical elements of any news report—factual strength with a marked degree of topical insight. The story also shows a clear grasp of economic trends affecting our industry.

In a capital-intensive industry such as ours, the need to keep abreast of the movements in money costs is as important as new technology. One major solution is affiliation of some smaller companies into larger more financially muscular companies capable of turning back inflationary sallies. As you suggest in your article, the SEC is still committed to curbing the speculative excesses of the Twenties. Neither experience nor logic suggest that larger companies mean less efficient companies; they do suggest lower costs for both the company and its customers.

—ROBERT F. KRAUSE
President,
New England Electric System
Westboro, Mass.

SIR: ... extremely good, comprehensive, objective and fair.

—CHARLES TATHAM
Vice President,
Bache & Co.
New York, N.Y.

To Make the Going Great

SIR: Your editorial comment on the state of Pan Am's health presents an astute diagnosis and an imaginative prescription (Fact & Comment, June 15). Pan Am needs domestic routes, either through government awards or through merger. Any airline with some 90 competitors is obviously suffering from an (Continued on page 82)

"MUG" IN MILWAUKEE MEANS GEMÜTLICHKEIT*



Today, 'mug,' meaning cup, is rapidly being overshadowed by 'mug' meaning assault and strong-arm robbery.

Except in Milwaukee, the safest large city in the country.

In Milwaukee, 'mug' still evokes the traditional gemütlichkeit of friendship, good food, and drink.

Nationwide, serious crime increased by 11% in 1969 according to FBI figures. In Milwaukee, serious crime decreased by 14%, continuing an impressive record of crime control and reduction.

That's very important when you're thinking of moving your plant or business — and your people.

Write or call the Division of Economic Development for the information you need on Milwaukee as your best move. Better yet, pay a visit or hold your next sales meeting or convention in Milwaukee.

You'll agree that Milwaukee's gemütlichkeit is truly a refreshing way of life.

Write Dept. FBS-870 for Gemütlichkeit folder.

DEPARTMENT OF CITY DEVELOPMENT

Division of Economic Development

City Hall — Milwaukee, Wisconsin 53202

Milwaukee: a beautiful way of life

*Milwaukee hospitality, gracious living, concern for neighbors, cordial acceptance and friendliness.

How systems engineering can produce a total plant facility system.

The systems engineer regards any facility for the production or distribution of goods or services as a total process which uses men, machines, material and money to perform specific functions. Before concerning himself with the details of design and construction, he analyzes the objectives of the system as well as the methods available to attain them. On the basis of this analysis he recommends the best solution to the problem. The result is a "Total Plant Facility System."

This approach offers significant benefits to the user in that it organizes data in a way that presents decision makers a clearer idea of the choices open to them and a better method of measuring results

against both expectations and objectives.

The Austin Method, a concept which integrates and coordinates a full range of consulting, engineering and construction services with undivided responsibility, is a systems approach to the development of solutions to plant facility problems. The approach, based on nearly a century of service to commerce and industry, produces measurable benefits in time, effort and money for Austin clients.

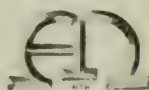
Austin offers seven engineering-economic-consulting services in its comprehensive portfolio of services. They are an important initial step in a systems approach to establishing objectives and require-

ments of the total facility. These services include:

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Austin offers any or all of these services in addition to its design, engineering and construction services for industrial, commercial and institutional facilities. For further information, please write, wire or teletype: The Austin Company, 3650 Mayfield Rd., Cleveland, Ohio 44121.



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Fact and Comment

MILLENNIUM

If you're not dead certain of what the word "millennium" means, I can give you a perfect example.

President Nixon and his sensible Shultz have asked the Congress not to vote for more spending than the

revenues (spelled t-a-x-e-s) they have voted to provide.

The day the Senate and House of Representatives enact that suggestion could only be described as a or the millennium.

IN REAL PERIL

Our universities, public and private.

And I don't mean from student strikes and campus turbulence. Nor do I refer to undergraduate psychotics dedicated to the literal destruction of the country's colleges. The latter are identifiable and removable cancers and the former have usually sprung from undergraduates' strong feelings, right or wrong, about wrongs they want righted.

No, the perils to the great learning centers of our land are far more complex, far more difficult to cure. Universities must have money to exist, and the last couple of years that necessitous commodity has come into short supply.

The freedom and vehemence with which undergraduates these days express their concerns have antagonized many of their older countrymen whose labor produces the taxes and the gifts that support these institutions.

Long hair and bizarre dress have produced more in the way of fallout than mere dandruff. This adult reaction may be as absurd as the clothes and beards students wear, but it has had grievous impact on the public support which is prerequisite to political appropriations and much alumni benevolence.

On top of this, endowment funds have shrunk with the market.

Other operational costs have climbed as much or more for colleges as they have for families and companies.

American business is in a profit squeeze, but, thank goodness, almost all businesses have had some profit to be squeezed. Universities, however, have no such thing and such rainy day reserves as endowments can meet only an infinitesimal part of their annual costs.

It will be a very dark hour—and that dark hour is nearer at hand than we realize—should many colleges close their doors in bankruptcy; should others have to curb or cut out assorted departments and dismiss those who spend their lives on things of mind and matters that matter.

It behooves everyone who loves this land of freedom, who can look beyond his nose, who really understands that our greatness lies not in Things but in Freedom in the true sense, to wake up and help stanch the tide of misunderstanding and hatred that threatens to diminish our universities.

UNCONSCIONABLE

When my father was outraged by some really bad violation of business ethics, he would brand it "unconscionable."

I think it appropriate to use that word to describe the present situation whereby a corporate employee forfeits all equity of time and money in his company's pension plan should he leave voluntarily, be fired or the company go under.

Soundly conducted retirement plans are funded annually. The Government encourages their existence by making the corporate contribution a fully deductible business ex-

pense. Yet if a man, after ten or more or less years, shifts jobs by desire or necessity, he usually loses all.

That is not right.

It is heartening to see President Nixon pushing legislation that will safeguard employees' contributions in cases of bankruptcy or misuse of such funds. I hope the measure ultimately will include some form of vested interest in individual pension benefits so that if a man should be fired or leave a company after a certain period of time he can take at least a reasonable part of his equity along with him.

ONCE UPON A TIME . . .

The White House
Washington
August 19, 1957

Dear Senator Forbes:

As your friends join in greeting you on this anniversary, it is a pleasure to be counted among them. And naturally our thoughts are centered upon wishing you many happy returns of the day, with the next one finding you in the Governor's chair.

With warm regard,

Sincerely,
Dwight D. Eisenhower

The Honorable Malcolm Forbes
Far Hills
New Jersey

The other day one of our sons brought in the above letter from the FORBES collection of Presidential Letters. "Pop, in a few days you'll be 51. Do you remember what happened this time 13 years ago?"

For all of us some events seem like they happened yesterday, no matter how many years have elapsed, whereas other happenings seem to have occurred a century ago. The event here depicted fits both categories.

Our young, shown in the ritualistic Candidate Visit to the White House, are now pretty much full grown; Father is now gray, jowled and creviced. Only the Mother of the clan has shown little change in appearance over the years.

For me, the fiery political flames were banked and died over a decade ago. But I remember feeling like such a hypocrite when people would say, during the course of my numerous political campaigns in the years immediately following World War II, how

much they admired any young man devoting so much time to public life. Fired throughout youth by vaulting political ambition, nothing could then have kept me from politics.

Now nothing could induce me to undertake *any* political post, and I have come genuinely to admire and appreciate good men who do. It really does

mean, you know, giving up virtually all privacy, virtually all family life, virtually all prospects of earning much money, all chance of occasional carefree quiet.

Instead of just one boss in the office and one at home, men questing and/or having public office have a thousand thousand bosses: everyone who votes or will grow to vote; every Interest, every pressure group, every ethnic group. Every individual mad about anything trivial or momentous feels free and is free to have his demands heard and sometimes heeded by publicos.

How my wife hated the whole business. This picture with then-Vice President Nixon, during that long-ago Forbes gubernatorial effort, is a bit symbolic—you have to look hard to see that she is there in the background. The business of touring and waving and sitting on platforms and accepting flowers and being called on for a few words she found infinitely more painful than bearing our babies. And I believe, with a few notable exceptions, that this is true of most wives of political figures, including every First Lady except perhaps Dolley Madison and Mrs. Franklin D. Roosevelt.

What's all this got to do with business and the economy and the stock market and next-quarter earnings and who's running what companies how well?

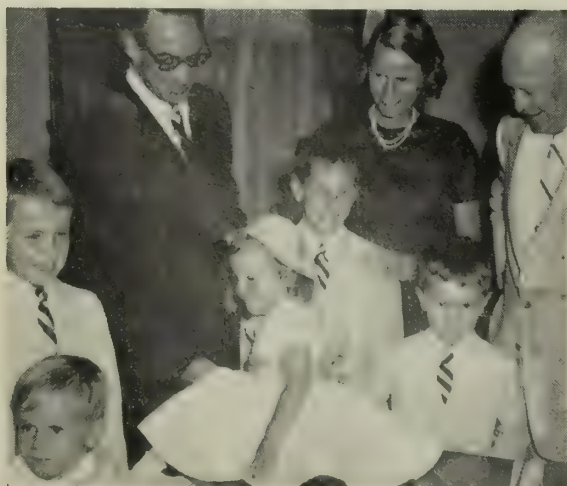
Nothing really, except birthdays remind even businessmen, able and young and old and able, that age we must and age we do and at a rate that sometimes seems very, very fast.

The man who said *tempus fugit* was wrong.

It goes like lightning.

Tomorrow does come and we're all very soon gone.

So, in living, let live—when you've anything to say about the matter.

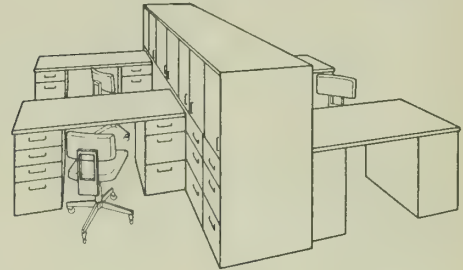


—MALCOLM S. FORBES,
Editor-in-Chief

Some offices are a lot like zoos.

Some offices are thrown together without thought, solely for the purpose of production. This tends to dehumanize, reactions become rote, work slows. People start thinking like caged animals, start watching the clock. It wastes money.

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Take yourself through Vepco's Central Virginia. Follow your finger across this page.

1. You are in Charlottesville, the home of Thomas Jefferson and his beloved University of Virginia. A university that now offers excellent graduate schools and research facilities. You look at this beautiful countryside and you say to yourself: "A man could do something fine here."

2. Among the plant sites, industries and facilities in the Waynesboro area, you see an incredible sight: Workers who believe in working for a living. They learned the value of work on the farms around here and they never forgot it.

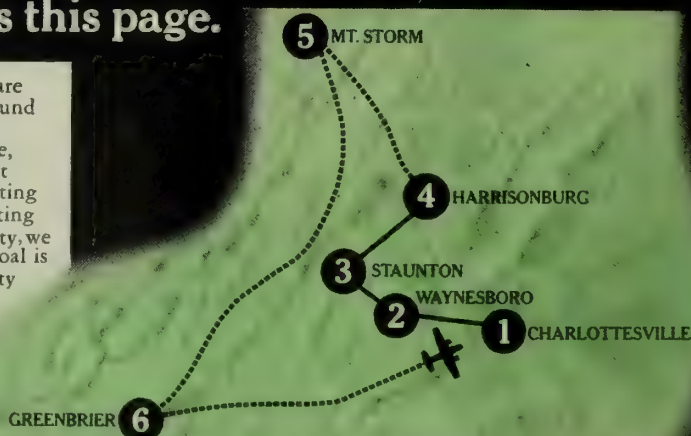
3. In Staunton, birthplace of Woodrow Wilson, you, too, can look about and see a bigger world out there: The whole northeast. Its problems aren't very close to you. But you can ship to it overnight and it represents some 60% of the major U.S. markets.

4. Harrisonburg. This major manufacturing center puts you in the middle of the beautiful Shenandoah Valley. In the middle of many potential suppliers and customers. But

because of the way people are here, it's not likely to surround you with labor difficulties.

5. You're in an airplane, looking down at our Mount Storm Mine-Mouth Generating Station. Instead of transporting coal to a power plant in the city, we generate power where the coal is found. And send the electricity to the city at 186,000 miles a second. Which is considerably faster than coal trains, as good as they are here.

6. While you're relaxing at the Greenbrier near Covington and Clifton Forge, you wonder. How can you be so close to your markets, yet so far from their problems? The way to find out is to call J. Randolph Perrow at (703) 771-3767. He is the Manager, Area Development, of the Virginia Electric and Power Company, Richmond, Virginia 23209. And if it's useful information you want, nobody seems to offer more of it than he does.



A Fate Worse Than Bankruptcy?

L-T-V has avoided formal bankruptcy. But for a long time the creditors, not the stockholders, are going to run the show.

WHEN a corporation is in trouble, whose interests are likely to come first—a) the employees, b) the stockholders, c) the tax collector or d) the banks and other creditors?

The answer: It depends. Consider last month's developments at problem-plagued Ling-Temco-Vought. The banks and debenture holders—the creditors, in other words are in the saddle at L-T-V these days. The interests of everyone else concerned—employees, stockholders and the Federal Government—are now secondary to those of the money lenders.

In a way this is perfectly normal. As an indignant Calvin Coolidge asked when European nations failed to pay their World War I debts: "They hired the money, didn't they?" Ling-Temco-Vought *did* borrow the money and it *did* pledge its assets against repayment. It has \$700 million in debt, \$75 million of which will come due in 1971, and apparently earnings from subsidiaries are inadequate to cover the interest charges. But in salvaging their own interests, will the creditors damage the interests of stockholders?

Take the reports that L-T-V was lining up a buyer willing to fork over \$150 million for its 56% ownership of Braniff. The sale of the Braniff stock would probably let L-T-V's bankers sleep tight again. But L-T-V stockholders, on the other hand, are losing what could be one of the most valuable pieces of their equity at a time when the airline business is in a depressed state. And when Braniff, in particular, just reported a 1970 first-half loss of \$673,000 compared with last year's \$5.4-million profit, certainly Braniff will not bring a top price in today's market.

With founder James J. Ling serving merely in an "advisory" position as vice chairman, the bankers have full control of L-T-V's assets and cash flow. Especially is their hand strengthened in Jones & Laughlin, the acquisition that put L-T-V on the rocks. Prior to June J&L had been managed as a voting trust, with J&L's incumbent management exercising voting control.

L-T-V, with 81% of J&L stock, has been understandably unhappy about that. In May, for example, J&L management voted not to pay a cash dividend on its common stock, eliminating a source of cash Ling would have welcomed for his L-T-V.

In June Ling made his pitch to get voting control. He vowed to union members and a Pittsburgh judge that L-T-V's takeover of J&L would not result in labor cutbacks, plant shutdowns or pension fund raids. The pledge was good enough for the union members to withdraw their court action, and the court approved L-T-V's assumption of full management control. But now it appears there was a catch: The pledges were made on Ling's name alone. They would apply only "in the event that I [Ling] am in a position to have any participation in the management" of J&L. With Ling out of active management of L-T-V, these promises may no longer be binding on L-T-V.

Shuffling the Deck

The consolidation of LTV Aerospace and LTV Electrosystems, two of L-T-V's healthier subsidiaries, is also part of the banker's takeover. At the moment L-T-V has 69% of the stock of Electrosystems (\$203 million

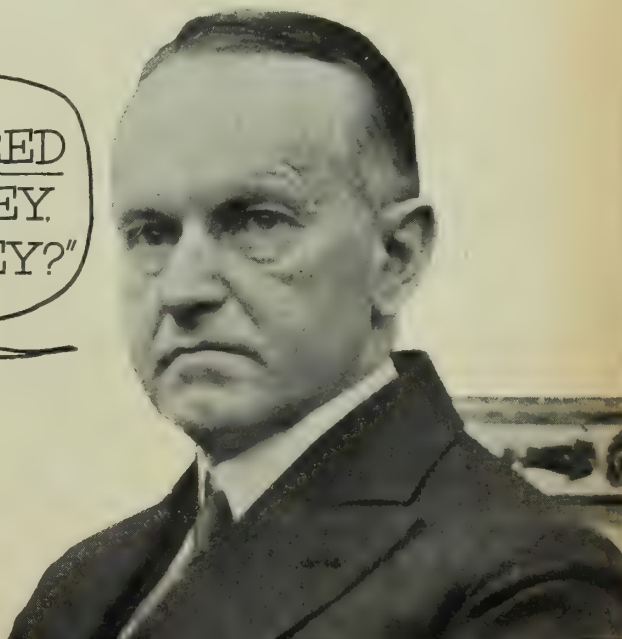
sales) and 63% of Aerospace (\$714 million sales). For tax purposes, the bankers want 80% ownership so that they can offset profits from profitable subsidiaries with losses from others—thus eliminating corporate income taxes. The tax savings could go as high as \$15 million a year, thus diverting from Uncle Sam to L-T-V's creditors a substantial amount of cash.

How can the parent company get the additional stock in the subsidiaries? With its common stock almost worthless, it can hardly swap stock.

The bankers have figured out an ingenious way to raise the parent company's ownership of the two subsidiaries. The subsidiaries have created a new class of preferred stock. The stock is not attractive to the public: It will sell at \$100, is nonconvertible and pays only 4%. But it is attractive to L-T-V. Reason: The new stock carries voting rights. Presumably, no one except L-T-V will want the stock. Thus, for just \$13.8 million, L-T-V can raise its voting control of the two subsidiaries to 80%-plus.

As part of the deal, the subsidiaries will turn over to L-T-V the cash they save in income taxes as a result of the consolidation so that L-T-V should easily get its \$13.8-million investment repaid in cash.

"THEY HIRED
THE MONEY.
DIDN'T THEY?"



There are other maneuverings too. In June L-T-V converted its 3.2 million shares of LTV Aerospace from Class B (nondividend-paying) to regular common stock that can pay dividends. Its LTV Electrosystems Series A preferred stock has been converted into Class B common stock, to help it get part of its 80% ownership of LTV Electrosystems. Presumably it, too, could later be converted into regular dividend-paying common.

All this shuffling worries some LTV Aerospace stockholders. "In the past the real interest of L-T-V was to get the highest possible price for the stocks of its subsidiaries," says Roger Smith, an investment analyst at Wood, Struthers & Winthrop, adviser to the de Vegh mutual fund, which has

90,000 shares of LTV aerospace in its portfolio. Now, says Smith, when L-T-V wants to increase its ownership of a subsidiary "its interest becomes the lowest price."

To Whose Benefit?

Smith thinks concern over these moves has helped knock LTV Aerospace's stock price down from 40 to 8 in the last year. "LTV Aerospace is basically a healthy company," he says. "I think that this experience is going to make many of the sophisticated institutional investors unwilling to take positions in spinoffs of big companies in the future. The interests of minority shareholders are just not always identical to the interests of the parent company."

On Wall Street these days, the big question is whether Ling-Temco-Vought can make it without going into a court-supervised reorganization, as did Penn Central. Perhaps a better question would be: Is a bankruptcy of the Penn Central type the worst thing that can happen to a company? However demanding the Penn Central bankruptcy may be, it does have certain advantages: By keeping the creditors at arm's length, it gives the troubled company time to get its house in order.

What's happening at L-T-V, by contrast, is that the creditors, mainly the bankers, hold the reins. Whether that's in the best interests of everyone else with a stake in L-T-V and its subsidiaries remains to be seen. ■

Operation Redeployment

Celanese preceded most of the conglomerates in the acquisition game; it also led the way in deglomerating.

CELANESE CORP., the big New York City-based chemical company, was twice a forerunner of the conglomerates. Starting in 1960 and continuing throughout most of the decade, it acquired and merged its way from \$264 million in sales to well over \$1 billion, broadly diversified across synthetic fibers, plastics, chemicals, paints, petroleum and wood products. In the process, like the later conglomerates, it accumulated a huge tangle of debt and preferred stock.

Then, in the late 1960s, when the conglomerates were in full cry, Celanese became a harbinger of conglomerate fortunes in another way. A number of its acquisitions turned sour, and its debt became overly burdensome. In 1968 Celanese took a huge \$135-million write-off against earnings, and began selling off many of its acquired operations. This, of course, is what is happening to many conglomerates today.

President John W. Brooks, 52, had been one of the architects of Celanese's acquisition program. He succeeded Harold W. Blancke as chief executive officer in 1968, just as the selling-off process was getting under way. "We saw the realities," says Brooks today. "We weren't afraid to rock the boat."

Rock it he did. After taking the 1968 write-off against profits, which threw the company \$77 million into the red for the year, Brooks commenced to peel off one operation after another. SIACE, a Sicilian paperboard manufacturer, was sold to Italian interests. British Paints went to U.K.

interests. Konam, a Netherlands petrochemical producer, was sold to Dutch interests. Columbia Cellulose, another loser, is currently on the block (its sales are not consolidated with the parent company's). Columbia actually has been turned around and is making a profit, but, says Brooks, "We still want to sell it."

Same Philosophy

The next step was to sell Champlin Petroleum Co. and Pontiac Refining Corp., which together accounted for about 15% of Celanese's sales. Both were profitable operations, but, says Brooks, "Growth is only about 4% a year. They are in a capital-intensive industry, and we felt we could do better with the money in the kind of business that we thoroughly understand." As though to forestall any possible liquidity problems, the two companies were sold last December to a Union Pacific subsidiary for \$240 million, \$120 million payable this year and \$40 million in each of the next three years.

Along the way Celanese has been lowering its long-term debt, which reached \$666 million in 1967, to about \$500 million today. "We believe in leverage as a philosophy, but we don't want to be at the level we were before," says Brooks. The company's 1970 capital program of \$170 million does not demand additional debt.

Painful as the boat-rocking was, Brooks claims that Celanese is now in the best financial shape in many years. More important, he says, it is primed to begin making new acquisitions—but

in a more orderly way. "We want to diversify as long as we can find companies that fit," says Brooks. Of course, that's just what Brooks and Blancke said during the earlier acquisition period. Are the company's managers now better equipped to judge what fits? They have in mind building materials, health care, hospital supplies and nonwoven textiles, among others.

For now, however, Celanese is again primarily a maker of synthetic fibers, which account for well over half of sales. Chemicals like acetic acid, methanol and formaldehyde account for another 20%, with plastics like high-density polyethylene chipping in most of the remainder.

Fiber sales are still growing nicely: Sales of polyester staple, for example, were up 20% during the first half of 1970. In polyacetal plastic, after conceding du Pont a two-to-three-year head start, Celanese now has over 50% of the world market. However, both fibers and plastics are intensely competitive fields where profit margins are exceedingly thin.

Unlike most of the conglomerates, Celanese has come through this massive redeployment of capital in pretty good shape. Earnings last year, \$5.41 a share, were the best in history, and represented a return of about 14.7% on stockholders' equity—above average for big industrial companies. So far this year, earnings are down—from \$37.8 million to \$31.5 million in the first six months—but the decline is not out of line with the trend of the economy. Best of all, the company's liquidity hasn't been impaired. ■

The Jet-Propelled Bankers

The odds are good that the 747 you fly belongs to a bank. Through tax benefits, the bank may make more on it than the airline.

How do you buy \$1.3 billion worth of new aircraft when you have lost \$66 million in 1970's first quarter, are borrowed up to the hilt and are short on ready cash? If you are one of the Big Five U.S. airlines—American, Eastern, Pan American, Trans World and United—you don't buy; you lease. Leasing arrangements, in fact, have been a kind of rescue for the Big Five. But more than that, these arrangements are tremendously profitable to the banks and other lessors.

Leasing by the Big Five is snowballing. At the end of 1969 they were leasing aircraft whose purchase prices totaled about \$1.5 billion. Of the 747s slated for delivery by the end of this year, over half are scheduled to be leased, and more will be added. By the end of 1970, the 747s, in addition to other aircraft leased this year, will raise the value of leased aircraft by \$700 million, an increase of almost 50% over 1969.

56% Return

Here's how a typical leasing deal would work for a single 747. The bank puts up \$5 million of the plane's approximate \$20-million cost and borrows the \$15-million balance at, say, 10% from outside sources such as insurance companies, pension funds, or, in two recent cases, the general public. Typically, the airline pays the bank \$2 million annual rent for 15 years, at which time it has an option to purchase at fair market value. Out of this \$2 million the bank pays interest to its creditors and retires the principal over the life of the loan. That leaves a cash flow of about \$170,000. What's so great about a \$170,000 return on a \$5-million investment?

That's only the beginning. The bank, as owner, is entitled to the 7% investment tax credit of \$1.4 million right away. It is also entitled to accelerated depreciation for tax purposes. Using the sum-of-the-years-digits method to calculate accelerated depreciation adds, in the first year of the lease, another \$1.3 million to earnings after taxes. Total first-year cash flow for the bank: \$2.8 million, with \$2.7 million of it coming from tax benefits. That's a 56% return on the bank's own investment in the very first year. After ten years the depreciation credit is lower and there is no investment tax credit, leaving total after-tax earnings of \$950,000. Still a return of nearly 20%.

The outside lenders have meantime

their solid 10% return (the latest offering to the public was at 11%) plus (for security) an assignment of the lease, a security interest in the aircraft and, with the recent public issues, a guarantee by the airline of principal and interest on the aircraft.

As for the airlines, their recent poor earnings records have left them with large, unused tax-loss carry-forwards. If the airlines bought the planes on their own, they would be forced to defer using the accelerated depreciation and investment tax credits. In fact, they are in danger of permanently losing the investment tax credit, since the law states it may not be carried forward for more than seven years. If an airline had to borrow the \$20 million to pay for a 747 but could not take advantage of all the tax benefits, its first-year earnings would be reduced by \$1.1 million.

Under a leasing arrangement, however, the bank can utilize the tax benefits and pass some of them along to the airline. The airline thus winds

up paying in annual rent to the bank the equivalent of only 6.6% in interest, after tax benefits, far less than it would have to pay if it had to borrow the money to purchase the plane on its own.

Question of Timing

It is only because of the airlines' poor earnings that this kind of leasing deal has become attractive to them. Of the four most prosperous airlines—Continental, Delta, National and Northwest—none has any aircraft on such leases.

So it's a great deal for all the parties concerned. The banks get their major benefits in the form of tax deductions now, when their earnings are high, and direct earnings contributions later, when they may be more welcome. The airlines get an immediate contribution to earnings when it is sorely needed. And the lender gets his high return. In short, this is one of the rare instances when the tax laws make everyone happy. ■



Come Josephine In My Banker's Machine. Not so far-fetched, considering that New York's First National City Bank, for one, currently owns more than 100 airplanes valued at over a half-billion dollars. The 12 major U.S. airlines now lease close to \$3 billion worth of planes from banks and other owners outside the airline industry.

Everybody In

What business are Westinghouse, Travelers Insurance, Lever Bros. and First National City Bank all in together? The computer business.

EVERYBODY knows who's who in computer manufacturing. First comes IBM with the lion's share. Then comes everyone else: GE-Honeywell, Sperry Rand, RCA, Burroughs, Control Data, NCR and a few others. As for computer services, isn't that a business for small speculative companies?

Little? Like Burlington Industries? Or McDonnell Douglas? The fact is that the latest, biggest thing in computer services—which is, after all, by far the fastest-growing end of the business—are the giants of manufacturing, retailing and banking. They are coming in so they can wring more profit from their huge computer facilities and dearly bought knowhow.

The prize is sumptuous. Last year sales of computer services—software, time-sharing, programming and education—ran some \$2.15 billion, and seem headed for \$6.2 billion by 1973. The big newcomers want a share.

Last January, for example, Westinghouse organized its Tele-Computer Systems Corp. So far, 90% of its business is with other Westinghouse divisions. But it is optimistic that by 1973, 50% of revenues will come from outside. "We had developed a lot of knowhow and a tremendous collection of computer programs," says Robert C. Cheek, president of the 650-employee subsidiary. "We decided that if they were good enough from our

standpoint they ought to be marketable outside the corporation as well."

One of Westinghouse's most successful programs is an order-processing and inventory-control system called TOPS (for Teletype Order Processing System). Over the years Westinghouse has steadily added more of its own divisions to the TOPS system. Now Cheek sees no reason why it can't add outside companies to the system just the way it added divisions. The customer would not have to pay the huge cost of developing the system himself. And Westinghouse would get added revenue from a project whose cost it presumably has already written off.

A Sure Thing

The fantastic growth projections are what attract big corporations to the computer services market. "Everything I have read about this software market indicates a growth rate of 50% a year," says Jeff Grandy, a vice president in charge of First National City Bank's Computer Software Services department. Thus companies such as Travelers Insurance paid \$100 million in stock for Randolph Computer, 25 times earnings, to give Travelers an entry into the market.

But there are other pluses as well. Computer hardware tends to become more efficient per dollar, the bigger

the computer. Many a small company, for example, cannot afford RCA's big new Spectra 70-46 computer. But Burlington Industries has two of them that it connects to customers over telephone lines. "Companies of \$100-million to \$150-million sales can ill afford to have their own computer," says Richard A. Gilbert, the president of Burlington Management Services.

Lease rates are structured in such a way as to encourage the sale of computer time. IBM's leases are based on eight-hour usage per day. The customer using its equipment more than the minimum only pays from 10% to 30% more. Therefore, many computer users simply sell this extra time to others. Time Brokers, a New York City firm, sells over \$6 million in computer time each year, mostly for corporate clients who have open time on their computers. "Almost anything they sell is gravy for them," says Time Brokers' president, William P. Hegan.

But the most attractive reason for going into computer services may well be to spread the cost of projects that the corporation would undertake anyway. Four years ago, for example, First National City Bank developed computer programs that were used by its lending officers. Other banks became interested, and today FNCB has a 25-man group developing and marketing financial computer pro-

The Crane That Lays the Golden Eggs

Japan Air Lines has some problems, but making money isn't one of them.

THE JAPANESE believe the crane is the bird that flies highest and farthest; that's why Japan Air Lines has emblazoned it on all its aircraft.

It would also seem to be the bird that flies richest, because on flights within Japan (about three-fourths the total), JAL enjoys a passenger load factor of over 80%, the highest of any major airline in the world. U.S. carriers are happy to fly 55% or 60% full; national airlines in Europe, like Alitalia and Lufthansa, typically operate on a 50% to 60% load factor.

"With a load factor of 80% and higher on our domestic flights, we're able to net around 30% on that part of our business" beams Shigeo Kameda, JAL's New York-based vice president for the Americas.

That one statistic explains why Ja-

pan Air Lines overall last year was able to net, before taxes, around \$64 million on revenues of \$381 million (up a full 30% from the year before). That figures out to a 16.8% return. By contrast, Delta, the most profitable U.S. airline, earned a pretax net of 12.6%. Nor do the major European carriers do better: BEA (British European Airways), which like JAL flies both domestic and international routes, managed only a 12.8% return.

Government Links

Japan Air Lines has some other advantages besides its domestic monopoly. The Japanese government owns 50% of the line's stock. While JAL receives no subsidies, it pays the government no dividends. Further, dividends to the remaining stockholders (2% are

non-Japanese) are limited by law to 8%—which has enabled JAL to keep tax free some \$55 million in a "special amortization" account for investment in more and bigger aircraft. Besides three 747s and eight more on order, JAL also has on order three Concorde and five U.S. supersonic transports (SSTs).

But JAL's international picture is just as bright: Last year it carried 1.3 million passengers on its overseas routes, nearly 30% more than in 1968. "The Japanese are great travelers," explains Kameda. "They start with excursions when they are youngsters in school. And with the Japanese economy growing, they are traveling by air." Of all Japanese travelers going overseas, 55% depart on JAL and 75% return that way.



Some Will Sink. The entry of big companies into computer services has already taken its toll. A number of independent service bureaus that sell computer time have failed as competition has forced rental rates down. IBM's workhorse, the 360 Model 30, was once available for \$100-\$125 an hour. Now time on it can be purchased for \$40-\$50 an hour.

grams. The First National City Bank programs are offered through General Electric and other time-sharing companies. Since almost all the programs are also used internally at FNCB, the only big added cost is marketing.

Keep Out

Not surprisingly, some of the independent computer services companies aren't happy with the interest the big corporations are taking in "their" field. The 600-member Association of Data Processing Service Organizations is fighting the entry of the communications companies (such as Western Union, General Telephone & Electronics, and Continental Telephone) and the banks into computer services. ADAPSO estimates that 2,000 banks are offering or plan to offer computer services. "The banks have an unfair competitive advantage," says ADAPSO's executive vice president, Jerome L. Dreyer. "In many instances they are using it as a loss leader to bring in legitimate bank business." ADAPSO is suing the American National Bank of St. Paul (Minn.) in a test case.

In the long run, however, it looks like a losing battle. Perhaps the banks, which are closely regulated anyway, can be kept out of the computer services business; but no such machinery exists to prevent the entry of, say, a manufacturing company. Given that much computer equipment and that widespread an interest in getting into the field, it seems a safe bet that computer services will increasingly become a business for everybody. ■

The only trouble, says Kameda, is that "we haven't the two-way ethnic market of the other airlines." He means that many Irish-Americans fly to Ireland on Irish International Airlines, which is also used by the Irish flying to the U.S. But JAL just might develop such a market in Hawaii, where Kameda himself was born. He estimates that 30% of all Hawaii's tourists

this year will be from Japan—the majority flying JAL, of course.

JAL anxiously seeks new routes to accommodate Japanese businessmen, too. Chicago is particularly high on JAL's list of hopeful future stops.

In fact, JAL's biggest problem at the moment is a shortage of pilots and aircraft, though the introduction of the line's first 747 last month should

ease matters a bit. "We have about 100 foreign pilots," says Kameda, "but the Japanese pilots' union will not permit an increase in that number." Which in turn keeps JAL from getting as many aircraft aloft as it would like.

In comparison with the delicate balance between costs and revenues confronting most U.S. airlines, that would seem a very high-class worry. ■

Airborne Bliss is not confined to honeymooners. The growing Japanese love of air travel has been kind to JAL profits.



Faces Behind the Figures

The Unseen Foe

ON THE NIGHT of June 2, Norton Simon—businessman, art collector and, since March, politician—conceded defeat in his primary campaign for Republican nomination as U.S. Senator from California. In conceding, however, Simon scarcely mentioned his successful opponent, incumbent Senator George Murphy, the old-time song-&-dance man. Nor did he accept the defeat in good grace for the good of the party. Vowed Simon: "We're not through yet. We're going to get Henry Salvatori and his boys."

Californians understood the reference. Murphy wasn't Simon's real opponent. Simon was serving notice that his huge fortune, estimated at over \$100 million, was committed to wresting control of the California Republican party from the right-wing crowd that has controlled it in recent years. Henry Salvatori has been their chief bankroller.

Henry Salvatori? Much less a household name than Simon's, but like him a self-made businessman. Salvatori came to the U.S. from Italy with his parents in 1905 and grew up on New York's impoverished Lower East Side. After achieving a B.S. from the University of Pennsylvania in 1923 and an M.A. from Columbia three years later, Salvatori built his fortune in oil exploration. A decade ago he merged his Western Geophysical

Co. of America into Litton Industries, becoming a director at Litton. Salvatori has since emerged as the most powerful of Southern California's Republican party money men.

Salvatori is not so much interested in winning elections for the Republican party as he is in ideology. His money goes only to right-wing candidates. Thus this year Salvatori was the chief engineer of two primary campaigns designed to unseat moderate Republican congressmen. Salvatori and corporate and conservative financier Patrick J. Frawley Jr., says a friend, personally came up with \$125,000 for a single congressional primary campaign in which \$200,000 was spent trying to defeat moderate Republican Congressman Alphonzo Bell from Los Angeles. Bell won, but had to spend \$72,000 combating not Democrats but other Republicans.

Simon, too, is interested more in ideology than in mere politics. But Simon's is a very different brand of Republicanism. Simon exhibits both a concern for bringing young people into the Republican party and a passionate dislike for Salvatori's rightist ideology. Such intraparty polarization is costly. Simon spent \$1.8 million of his own money on his unsuccessful campaign. He got friends to help the two congressmen under attack by Salvatori.

Polarization is costly in other ways, too. Two years ago a Salvatori-backed conservative defeated moderate Republican Senator Thomas Kuchel in a primary, paving the way for the November election of a liberal Democrat, Senator Alan Cranston.

Is all this just another example of California's eccentricity? Not at all. As it is said to be in other ways, California is a forerunner in politics. The "new politics" of voting for the man, not the party, has been the only politics in California since laws passed in 1911 prohibited strong party machines. The split in attitude between a Simon and a Salvatori tells much of the division in the minds of businessmen the country over. Put simply, the division is whether the young and disaffected represent the implacable enemy or potential new blood and vitality for the enterprise system.

In his campaign and afterward, Simon sounded the old-fashioned businessman's beliefs. One of his television spots showed him talking



Conservative Salvatori

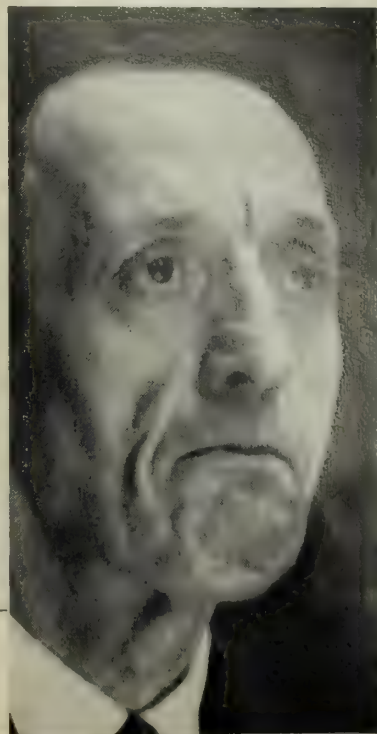
to a group of students about the "dynamism" of the free enterprise system. Ask him why he got into politics and he answers, "My sense of politics is as in business. This system has the power and ability to motivate people. Young people should work pragmatically within the Republican party."

Unlike Simon, Salvatori himself is not talking to the press these days. The man who was Barry Goldwater's campaign finance chairman for California in 1964 and was one of the original backers of Governor Ronald Reagan in 1966 is laying low. Because Salvatori has become, it seems, a man whom California Democrats run against much as Eastern politicians run against shadowy "boss" figures.

But one close political associate, like Salvatori a self-made businessman, told FORBES a few things about the beliefs held in Salvatori's circle: "I don't think you can be a moderate today. If you're the Establishment today, you're far right. When those kids burn the campuses, it's my taxes. I built a business and nobody's going to take it from me. We must protect ourselves."

Simon, too, thinks businessmen ought to protect themselves through politics. But he thinks the way to do it is by persuading the young, not overwhelming them. And he's determined that Salvatori and his friends aren't going to win by sheer force of money. ■

Moderate Simon



IBM's Great Dane

IT WASN'T the country but the man IBM was after when it added its first non-American board member. Maersk McKinney Moller, 56, whose shipowning-industrial empire is a big factor in Denmark's economy, was elected to IBM's board, says Chairman Thomas J. Watson Jr., because of his "all-round experience as an international businessman."

Moller certainly is that. Son of a Kentucky-born mother and a hard-driving father, Danish shipowner A.P. Moller, the urbane Maersk McKinney learned the business the hard way: working in Hamburg,



Moller of IBM

Paris, London and New York building up the Moller interests.

The Moller name now means refineries, shipbuilding, sugar, supermarkets, diesel engines and ventures into chemicals and natural gas exploration with a variety of partners. To increasingly internationally minded IBM (\$7-billion-revenues), however, with 40% of 1969's profits coming from overseas, Moller eases the embarrassment of doing business worth billions in Europe while having an all-American board. Asked if IBM would be naming more foreigners to the 19-man board, Chairman Watson said: "Not at this time." ■

Nickel-Plated Optimist

THERE ARE plenty of long faces among top-level businessmen these days, but 57-year-old Marsh A. Cooper of Toronto-based Falconbridge Nickel Mines Ltd. is smiling broadly. Last year, with revenues up 31% to \$137.6 million, profits almost doubled to \$9.13 per share, giving the world's No. Two nickel producer (after International Nickel) a better than 17% return on equity.

First-quarter earnings this year were up again.

"This is a wonderful business," hymns Cooper, a mining engineer who worked up to the presidency in 1969. "If I were young I couldn't think of one more exciting."

Cooper confutes skeptics who contend that nickel and copper (Falconbridge's other major metal) will soon be in oversupply. "People who say that make us look like idiots," he says, his smile suddenly

gone. "Copper may be somewhat cyclical, but our projections show continuing great demand for nickel.

"Look," he says, "we wouldn't be spending \$200 million on a new ferromagnetic mining project in the Dominican Republic and have a multimillion-dollar refinery in Norway if we thought we were going to be wiped out in a few years." Cooper could be wrong, of course, but it's refreshing these days to meet a downright bullish businessman. ■



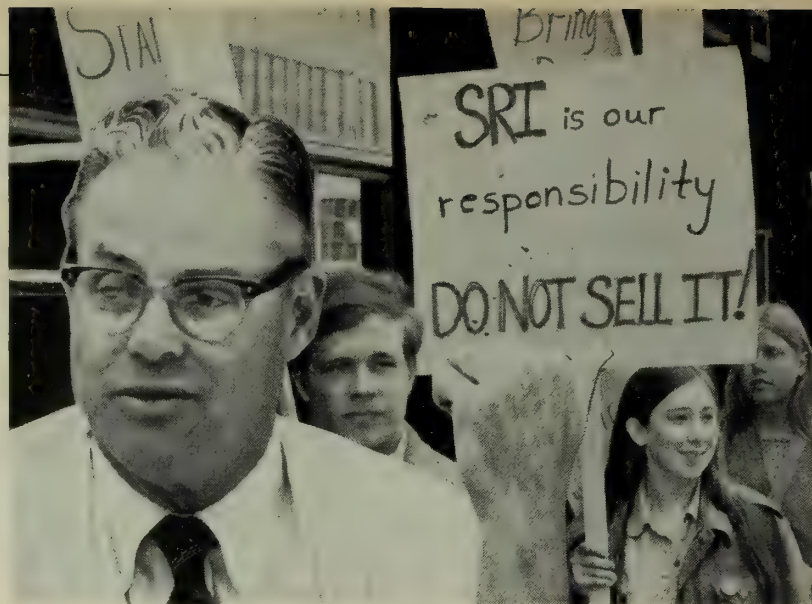
Cooper of Falconbridge Nickel

"We'll Be Back"

FIFTY-TWO-YEAR-OLD Charles A. Anderson is no stranger to problems. In 1966 he became president of J.I. Case Co., whose earnings have declined ever since. In 1968 Berkeley- and Harvard-educated Anderson became president of Stanford Research Institute of Menlo Park, Calif., and a year later SRI showed its first loss (\$250,000) in many years. Anderson quickly points out that revenues this year are at a record rate of \$65 million, but the full-year effect on profits remains to be seen.

How could a prestigious, not-for-profit research outfit like SRI run into trouble? One reason is that since its founding in 1946 SRI had been loosely managed under the auspices of the Stanford University trustees. Moreover, it has a high overhead and must contend with 1,500 scientists, who, in an almost academic atmosphere, do esoteric research in electronics, life sciences and economics. When the Government cut research spending, SRI was hard hit.

Then, too, Anderson had to deal with a new problem: student militants. In April 1969 SRI was the target of student radicals who pro-



Anderson of Stanford Research

tested its "war-related" research. About 35% of SRI's revenues come from the Defense Department. Several military-backed projects dealt with Southeast Asia, and fully one-third of SRI's contracts—both military and commercial—are classified. The radicals demanded veto power over SRI commitments. "They wanted to control us or put us out of business," says Anderson.

Anderson's solution was to sever ties with the university; this April

the break became official. The price of independence is high: SRI must pay the university more than \$25 million and within five years drop Stanford from its name. To Anderson, it was a price worth paying. "We've been delightfully obscure," he says, "and apparently forgotten by the radicals." But Anderson's research appears faulty. The radicals still object to SRI's war-related research, even without university ties. Warns one: "We'll be back." ■

Cuba, No; Yanqui, Si

SINCE Castro's 1959 takeover some 350,000 Cubans have fled to the U.S., but few have done better than David Egozi, a very determined 37-year-old who ran a smallish shoe company back in Cuba.

With a friend, Egozi smuggled some \$40,000 out of Cuba to start Suave Shoe Corp. near Miami to make canvas shoes. "All I really wanted was to make \$1,000 a month and live happily ever after," says Egozi. But Egozi is an entrepreneur, and he discovered that the U.S. rewards business drive. He pushed hard until today Suave Shoe, while no giant, has \$38 million in sales and \$1.9 million in profits. Egozi's own 15.5% of Suave's stock (it went public in 1969) is worth around \$3 million.

Egozi made his share of mistakes. Driving into a small southern town with his sample kit of canvas shoes, he would call on the biggest store, say a Woolworth's or a Penney's. He says it took him a while to realize



Egozi of Suave Shoe

these stores were parts of chains that do their buying at a central headquarters. Another surprise: "In Cuba you offered the buyer a kick-back. I found out it wasn't the same here—in most cases."

Egozi also discovered the stock market. When he planned a large capital expenditure, a Wall Streeter warned against it. Says Egozi: "They only want you to do what looks good in current profits."

Egozi, half of whose sales now come from imports, has little patience with U.S. manufacturers who want to restrict imports. "If they don't know how to compete, they should get out of the shoe business. Go make lamps or something. In Cuba, everyone said how great American businessmen were because they are so willing to change. Now it seems most shoe companies are run by old men who do things the way they did 60 years ago."

Not that Egozi is knocking American business, however. His success is a tribute to the free enterprise system working at its best. ■

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Someone Is Buying

INVESTORS may be leery of common stocks, but quite a few companies are buying them—their own shares, that is. In 1969 U.S. companies retired nearly \$3.4 billion worth. A substantial amount was for cash, the rest in exchange for other securities. Ling-Temco-Vought, for example, traded preferred shares for common. Several, like United Industrial, Cities Service and, in 1970, Allied Chemical, exchanged or sold shares they held of other companies for their own. The

table shows some big re-purchasers.

Buying back is common when prices drop, which is why it increased last year. It boosts per-share earnings (and sometimes the stock price), lowers dividend requirements and strengthens the control of remaining stockholders. But right now, a time of declining profits and corporate liquidity, it may also represent a serious drain on cash. Both investors and managers could well ask the question today, Is this the best use for scarce cash? ■

Repurchased Stocks

Company	Shares Repurchased (thousands)	Percentage of Listed Shares	Price	
			1969-70 High	Recent
Allied Chemical	143*	—	37¾	18¾
Am Broadcasting Corp	237	3.2	51	24¼
Ancorp Natl Service	175	9.6	53½	15½
Archer-Daniels-Midland	111	6.2	34	27¼
Bendix	318	2.5	49¾	23⅞
Cities Service	153†	—	80	46½
Cleveland-Cliffs	134	3.2	60¾	46⅝
Cone Mills	340	9.1	24⅝	15⅞
Consol Leasing	150	4.0	27	5
Di Giorgio	135	3.6	27¾	10¾
Diversified Inds	319	7.1	50⅞	8⅞
Duplan	200	9.1	50⅞	25⅞
First Natl Stores	248	15.0	40¼	30¼
Getty Oil	916	4.5	89½	51⅝
Grant, W T	467	3.3	59	36
Grumman Corp	295	4.1	48¼	14¼
Gulf & Western Inds	2,007	11.5	50¼	12⅞
Intl Mining Corp	143	4.4	36⅝	10⅞
Jefferson-Pilot	395	3.2	28⅝	25¾
Ling-Temco-Vought	1,756	28.6	97¾	14½
Lukens Steel	93	3.2	35⅞	16⅞
Natl Presto Inds	75	5.0	39⅞	22½
Norris Inds	123	2.9	30¼	14¾
Pan-Am Sulphur	300	6.3	35½	9
Penn-Dixie Cement	74	2.5	35⅞	9⅞
Quaker State Oil	468	6.3	26⅞	26
Spartans Inds	537	9.3	26⅞	6¾
Standard Oil, Ind	1,975	2.7	70¾	45⅞
Standard Prudential	168	3.9	15¾	7⅞
Studebaker-Worthington	175	2.7	60⅞	45
Swift & Co	385	3.1	35¼	26¾
Talley Inds	332	8.4	61	9⅞
United Industrial	1,049	46.6	20¼	6⅞
U.S. Freight	260	3.7	47¾	21
U.S. Industries	469	2.1	32½	12½
U.S. Smelting & Ref	109	4.4	65⅞	23¾
Vornado	496	8.1	26⅞	9¼
Ward Foods	121	3.7	52⅞	10⅞

*Plans to repurchase a total of 800,000 own shares

†About 3.6 million shares reacquired in exchange for Atlantic Richfield's shares were retired in April.

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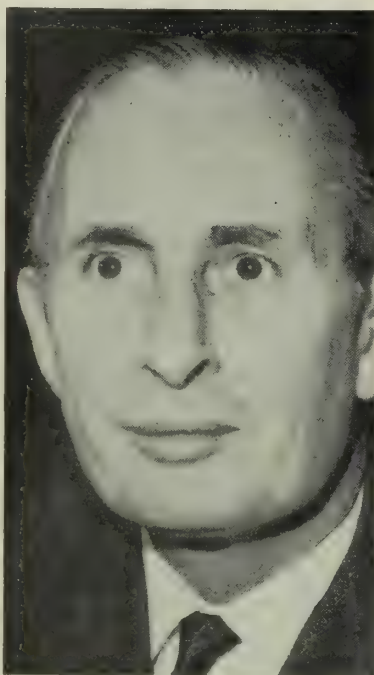
New Bearings

In the last five years proud, old Cunard has been trying to change the course it had charted for the preceding 125.

IN THE DAYS just after World War II when passenger ships were making money hand over fist, a chairman of the Cunard Steam-Ship Co. is said to have remarked archly, "You know, this company was founded in 1840, has never made a profit, and yet is still in business. How was that achieved? Because we have managed to lose only a little bit each year."

But when Sir Basil Smallpeice, 63, took the helm as chairman in 1965 the proud, old shipping company was, in his words, "near bankrupt." In the preceding five years Cunard had lost a total of \$23.5 million; months later a long seamen's strike would cost it another \$16.1 million.

The trouble was that Smallpeice's predecessors had missed several changes of course. They had stuck with a fleet of seven transatlantic passenger ships at a time when jet planes were making them obsolete. They had stuck with a large fleet of general cargo ships at a time when container ships and bulk carriers were sailing away with all the business. Equally damaging, in Smallpeice's view, was the fact that there was not a single chartered accountant (the British equivalent of the U.S. certified public accountant) among them. "We didn't know where the hole in our pocket was," says Smallpeice.



Numbers Man. Sir Basil Smallpeice, Cunard's up-from-the-ranks president, is a financial manager first, a shipping man second. Of Cunard's 47% rise in net profits last year he says: "We can do much, much better."

Smallpeice, himself a chartered accountant who had been financial comptroller and then managing director of British Overseas Airways Corp., was uniquely equipped to spot and plug the holes. He borrowed enough money to stay afloat during the 1966 seamen's strike, then set about selling off low-profit assets. He sold the *Queen Mary* to the city of Long Beach, Calif. for \$3.45 million (see box). For another \$7 million he sold off Cunard's Liverpool headquarters building, to the shock of more tradition-bound insiders. He also disposed of the company's 30% interest in BOAC-Cunard Line for yet another \$26.4 million. "That portion was earning only a 6% return," Smallpeice explains, "and that isn't enough for me."

At the same time, he had a stroke of luck with the huge new *Queen Elizabeth II* that was then being built under a contract let by his predecessors. Delays in steel shipments gave him time to redesign it as a cruise ship rather than a transatlantic passenger liner. Then Smallpeice laid down a goal: He didn't want Cunard to be in any business that didn't have the potential to earn at least a 15% return on investment, before taxes.

Today Cunard is still short of Sir Basil's goal. Last year the company earned \$7.8 million before taxes on

"Monument to Stupidity"

IN HER LAST DAYS as a Cunard liner, the majestic R.M.S. *Queen Mary* was losing her owners \$1 million a year. Today the *Queen Mary* rests at Long Beach, Calif. and is costing her new owners even more.

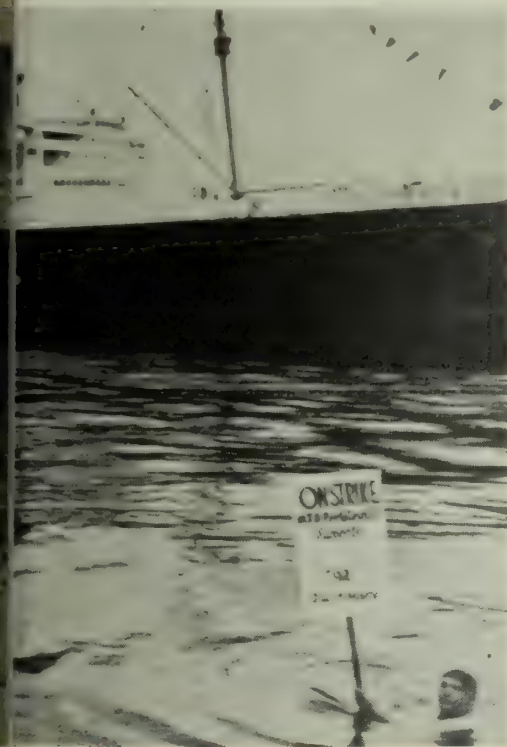
The city of Long Beach outbid 17 competitors in 1967 to buy the *Mary* for \$3.45 million. It was to be converted into a modern, luxurious convention center with 400 hotel rooms, 40 shops and a museum of the sea. The total cost of \$13.5 million would be split between the city and private investors (most prominently Diners' Club), and the ship would be ready by late 1969.

Instead, the *Queen Mary* sits unfinished, stripped of her furnishings, paint and name. The completion date has been moved forward three times, most recently to mid-1971. Costs have skyrocketed to \$52 million. Why? The project has been expanded greatly, has suffered from labor disputes, inflation and

charges of favoritism in contract awards. The design plans have changed constantly. Says County Supervisor Kenneth Hahn: "It's a monument to stupidity."

As if to agree, Diners' Club, the master lessee for all commercial development of the top seven decks, pulled out in July after spending \$5.6 million. The city of Long Beach hints it may sue, and is looking for someone with \$6 million to assume the unfinished work. A similar venture in Florida to convert her sister ship, the *Queen Elizabeth*, into a tourist attraction, meantime has already gone broke.

Officials admit the Diners' defection will impede progress, but they still envision 3.5 million visitors annually, netting the city from \$2.5 million to \$3 million. At least time is on their side. The useful life of the *Queen Mary* is estimated at 300 years, and surely the ship will be ready before then.



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revenues of \$143 million. That was a gain of almost 50%, but it represented a pretax return on capital of only about 8%. But that was after a New York longshoremen's strike and delays in getting the *Queen Elizabeth II* into operation, which together cost the company more than \$5 million. Smallpeice is satisfied with his progress. "You must remember that we've come up from nothing," he says.

But the 15% goal remains. "Too many tradition-bound British and American companies accept the idea that shipping is a low-profit industry," Smallpeice says. "Well, I don't accept that idea. Unless an operation can make 15%, I don't want it."

In quest of his goal, Smallpeice has been expanding his cruise ship business as rapidly as possible, trading on the Cunard reputation to snatch the middle- and high-priced end of the market. Instead of competing with the airlines on transoceanic runs, he has made allies of them, forming marketing links with Pan American, BOAC and several nonscheduled lines in order to promote weeks-long luxury cruises to the Caribbean and other warm-water areas.

Appeal to Reason

On the cargo side he has formed other alliances in order to move more swiftly and surely from general cargo ships into container vessels and bulk carriers. Cunard now owns a 20% share of Associated Container Transportation Ltd. plus a 45% interest in ACT's Australian subsidiary. It has also joined with Swedish, Dutch and French companies in the Atlantic Container Line consortium. In bulk carriers, Cunard now has seven petroleum products ships, and another eight slated for delivery over the next three years. Recent mineral finds in Australia and gas discoveries in North Africa and elsewhere have bolstered Smallpeice's confidence in the growth prospects for the shipping business.

"Passenger traffic has remained static, but cargo has been growing at 10% to 15% a year," he says. "Until now our competitors, the Japanese, the Scandinavians, the Germans and the Dutch, have been getting it. We will change that."

Can he change it enough to bring Cunard up to Smallpeice's 15% return? "Oh," he replies simply, "I won't go into a new deal that pays less. Our customers are reasonable men. An oil company that expects a return of 15% or 20% for itself can certainly understand why we should insist on such a return too." That's an oversimplification for sure, but it's equally certain that Sir Basil will never reach that level by aiming lower. ■



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It opened its doors just over a year ago as a joint venture designed to give its owning sponsors, medium-sized regional banks in cities like Indianapolis, Memphis, St. Paul, Denver and Portland, Ore., some muscle in the international field. Already it has 18 such sponsors with combined assets of \$16 billion; it can make loans to individual borrowers of as much as \$100 million; and in its first year it has worked on deals ranging from financing for Italy's electric system to the expansion of a large U.S. company going into Australia.

To be sure, Allied doesn't have the overseas brawn of giants like Bank of America, First National City or Chase Manhattan, which have been in the international game much longer. Its branches are limited so far to one in London and another in Nassau, plus an office in Hong Kong. And the chances are that it will never be able to match the international setups of its big-time competitors, given the resistance to further entry of U.S. banks in many places around the world.

But Allied is nonetheless providing its regional member banks the kind of window on the world that they could never have had on their own. "Allied," says Jacques R. Stunzi, its debonair 49-year-old president, "is an example of a good idea whose time has come."

Stunzi laughs a bit nervously when he says that, for the real question is

whether Allied's time did not come several years ago. The idea of setting up a nationwide banking group to run its own foreign operation was explored in the early 1960s by a group under Hoyt Ammidon, chairman of New York's U.S. Trust. It was then set aside. But Comptroller of the Currency (from 1961 to 1966) James J. Saxon liked the idea; and when he left Washington in 1966 to return temporarily to American Fletcher National Bank & Trust in Indianapolis, he revived it. American Fletcher was one of ten charter members that put \$2 million



Hot Transfer. Allied keeps its members liquid overseas by heavy trading in foreign exchange at a Wall Street center away from its town-house offices. Exchange deals hit \$1 billion a month in most major currencies.



each into Allied. Stunzi, who had helped set up the overseas banking division of American Express and later launched Illinois' Continental Bank's international subsidiary, was hired away from Continental to run it.

Allied was hardly off the ground when money turned drum-tight, and Stunzi found himself doing such unexpected things as funneling more than \$100 million in Eurodollars back to its money-starved member banks. (The Federal Reserve has since slowed that funds source.) Instead of doing just straight import-export financing, Allied is regularly called upon to provide loans to U.S. corporations that want to expand overseas but run into restrictions against foreign investments. And Allied finances deals through its Nassau branch so that U.S. companies are not taxed both at home and abroad.

Tight money, paired with the sluggish economy, has also caused Stunzi to postpone plans for an offshore mutual fund, a realty trust and some other ventures that were to be funneled through a new nonbanking subsidiary, Allied International N.V. in Curaçao, Netherlands Antilles.

Skirting the Red

But despite tight money, and the heavy start-up costs involved in building a staff of 130, including some 24 experienced international bankers, Allied has managed to stay in the black, earning about 2% on its members' investment the first year. Stunzi also reports happily that Allied assets have grown from \$26 million to about \$200 million: "We want to expand as rapidly as possible without going into the red," he says. "Allied is consolidating its gains, honing its skills right now. In an upturn, there will be a lot doing abroad." Eventually, he thinks, Allied Bank International will be paying out 10% to 15% yearly to a full complement of 20 banks.

In the meantime, there is a hidden plus. Before Allied, one of the favorite techniques of the giant banks was to woo a U.S. company just entering the foreign field by getting its overseas banking business, then make a pitch for its domestic business as well. Already Allied has done yeoman service for its members by helping to keep the giants at bay.

There is also a hidden promise. Each Allied member bank is stronger in its own city than the biggest giant headquartered in New York or San Francisco. Allied may have been set up to help finance U.S. companies anxious to do more business overseas; but its structure could prove even more interesting to foreign companies that want to do just the reverse. ■

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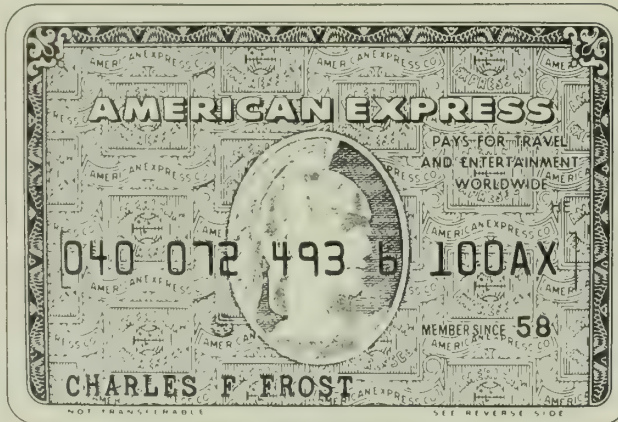
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And we don't think people should have to wait for long distance lines. So we have a system for rerouting calls. If you are in St. Louis calling Detroit, your call may be channeled through Pittsburgh or Dallas. But since there's no delay, you never know.

Of course, everything wasn't invested in equipment. \$300,000,000 went for training operators, installers and linemen. New people to keep up with the growing demand for telephones and services.

The American Telephone and Telegraph Company and your local Bell Company keep working, every year, to put a new phone inside your old one. Even if it does look the same.



As I See It

Armies of creditors and securities holders are massing to swoop down on the Penn Central's newly appointed trustees and its almost \$7 billion in assets. Railroad analysts, recalling the Thirties, predict it will take five, ten, even 20 years to untangle the mess.

One man who disagrees is John W. Barriger, recent president of the troubled Missouri-Kansas-Texas Railroad (he still heads the executive committee), who has spent a lifetime as a troubleshooter for ailing roads. Barriger, 70, is no stranger to railroad bankruptcies; he headed the Reconstruction Finance Corp.'s rail section during the 1930s. An acknowledged elder statesman in the industry, he missed being named a Penn Central trustee only because of his age. Nevertheless, he may serve as a consultant to the bankrupt company.

Barriger thinks the Penn Central's problems—if properly attacked—can be cleared up in two or three years, that it can be earning at a rate of \$100 million a year in profits by the end of two years. He sums up the PC's situation with an old European saying: "The situation is desperate but it is not serious."

What do you mean, "desperate but not serious"?

BARRIGER: The Penn Central is desperate in the sense that a man who has been run over is lying in the street bleeding to death. It's not serious because a competent medical practitioner can bind up the wounds and have him walking in a couple of weeks. The Penn Central can be put back on its feet in two or three years, and in my opinion *must* be.

How did PC land in this mess?

BARRIGER: Corporate schizophrenia. There were splits among [Stuart] Saunders, [David] Bevan and [Alfred] Perlman that got more personal as time went along. The organization was running off in three different directions at once. At the operating level, this polarized people into identifying themselves with the red or green team, never with Penn Central.

That's what made the merger a failure?

BARRIGER: The merger was *not* a failure. The two railroads were never merged. The marriage was never consummated; it was a civil war. Take the most prosperous railroads in the country, the Southern Pacific or the Union Pacific, run them the same way and they'd go bankrupt.

It wasn't until recently that the true state of PC's financial affairs came out. Was chicanery involved?

BARRIGER: I don't know. But whether it was chicanery or just plain bad judgment, I always felt that in view of the unsatisfactory condition of maintenance and their obsolete equip-

ment, all their cash reserves should be husbanded for the railroad. Instead, they went the other way. All the money that came from selling the Norfolk & Western and Wabash stock and so forth should have helped the railroad. That was Perlman's idea, but he was overruled. They were bleeding the maintenance to keep up financial appearances while they diversified.

With a typical railroad return of 2% or 3% on investment, but much more from real estate or pipelines, didn't it make sense to diversify?

BARRIGER: Not to the point of bleeding the railroad. Apparently Bevan was one of the liquidating group and Perlman one of the developing group. If you ride horses running in different directions, you fall between them.

Can PC come back as a railroad?

BARRIGER: I think so. It was a managerial bankruptcy before it was a financial one. Take freight yards. They're the bowels of a railroad, and Penn Central is badly constipated. Take routing. The Pennsy had the heavier traffic, and the New York Central had the water level grades. When they put the Pennsy's traffic on the Central's lines, it was just like when the Post Office reshuffles the mail. You have to have whole new systems of classification. They didn't have the proper systems, and the consolidation was never made effective. That's why you saw such a frightful breakdown.

What's the next move?

BARRIGER: Getting a top-notch railroadman to straighten things out. I have the highest regard for Jervis Langdon and George Baker [two of

Can Penn Central Come Back?



Railroader Barriger



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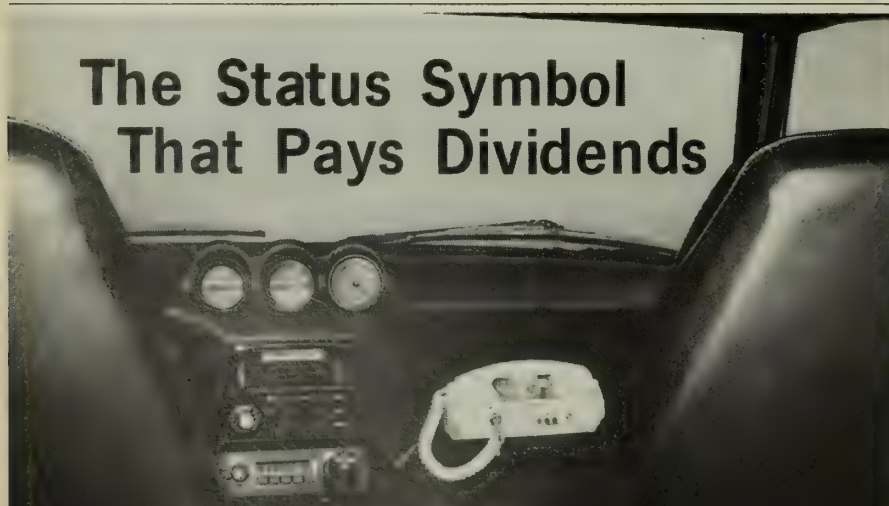
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As I See It

the four trustees]. I don't know the other two. I'm banking on the trustees, who know all the top railroadmen in America, picking a star to run the railroad. If they do, I see the operating losses virtually eliminated by the end of the year. PC is a tremendously potent money-making machine.

Aren't you soft-pedaling the financial mess? Look how long it took the railroads to climb out of the hole in the Thirties.

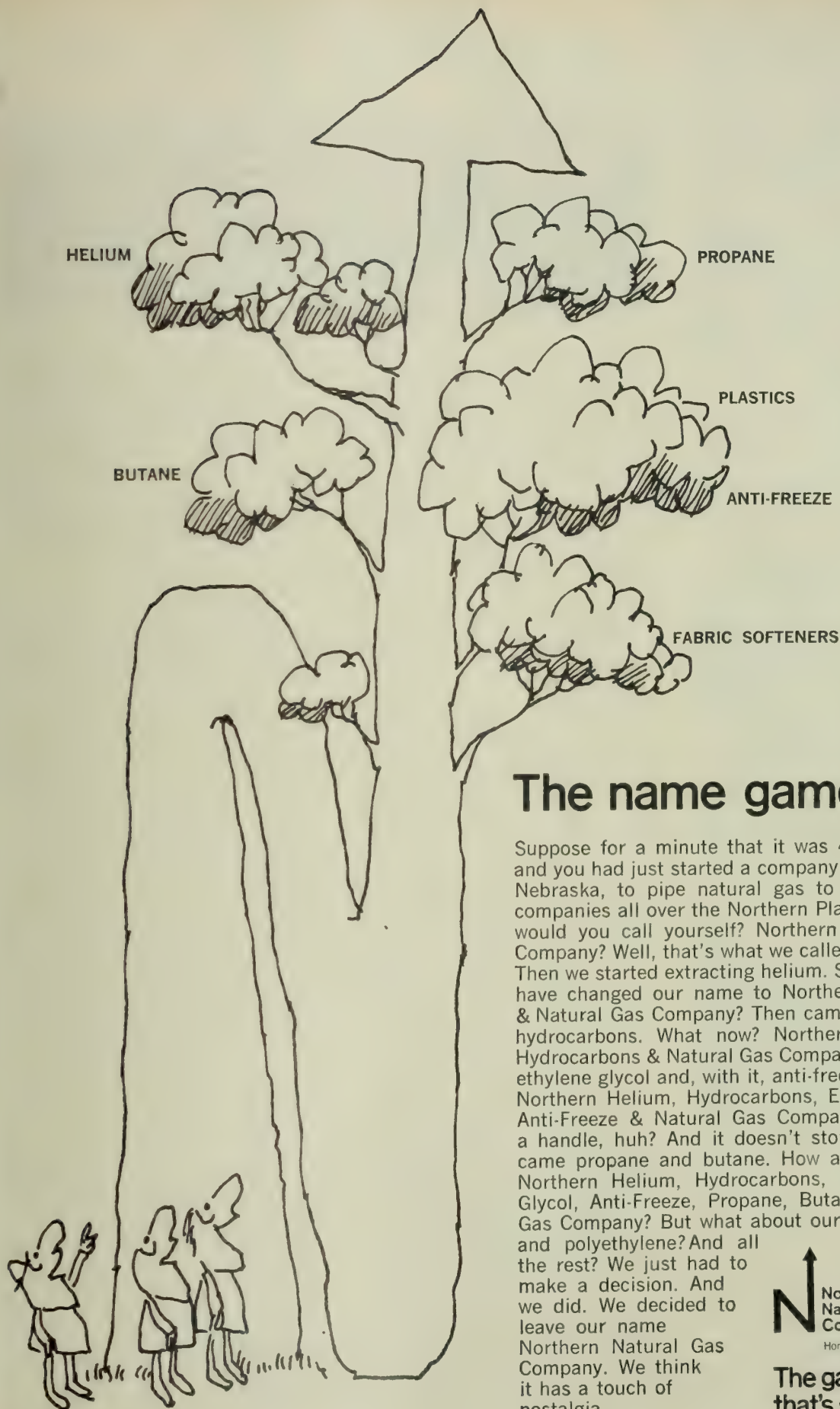
BARRIGER: There is no parallel. The railroads in the Thirties collapsed because of the Depression: They didn't have enough business to support them. But there is plenty of business to support Penn Central; customers were deserting it because service was so slow and unreliable. The Federal Reserve Board Index of Production is around 169 now; I believe it will be around 178 by the end of next year. So the traffic is there to be had.

You don't see any major liquidation of PC's assets?

BARRIGER: I do not. This railroad doesn't lack the potential earning power to support its capital structure. I don't think the stock will be wiped out, although it's possible they may disaffirm some of the leased lines on light-traffic branches. And they may convert some of the fixed-interest securities to contingent. But underscore this: I'm assuming they get management equal to the best. If they do, I don't say they'll be earning \$50 million next year, but I do say that by the end of next year they'll be earning at the rate of \$50 million a year. And at the end of the second year, at a \$100-million rate.

You're parting company with a great many analysts who say the PC mess will be a lawyers' picnic for at least a decade. Maybe two.

BARRIGER: I say it's going to be a short reorganization. Either the new management will be able to restore the railroad's earning power fairly quickly, or they won't. But if they don't, the deficits won't be paid out of the proceeds of trustee certificates, but by large grants from Congress, because Penn Central will have been nationalized. That's the real choice. Either PC gets going again, quickly, relatively painlessly, with a minimum of financial suffering, or PC gets nationalized—as well as the other railroads. ■



The name game

Suppose for a minute that it was 40 years ago and you had just started a company in Omaha, Nebraska, to pipe natural gas to distribution companies all over the Northern Plains; what would you call yourself? Northern Natural Gas Company? Well, that's what we called ourselves. Then we started extracting helium. Should we have changed our name to Northern Helium & Natural Gas Company? Then came hydrocarbons. What now? Northern Helium, Hydrocarbons & Natural Gas Company? Then came ethylene glycol and, with it, anti-freeze. Maybe Northern Helium, Hydrocarbons, Ethylene Glycol, Anti-Freeze & Natural Gas Company? Quite a handle, huh? And it doesn't stop there. Next came propane and butane. How about Northern Helium, Hydrocarbons, Ethylene Glycol, Anti-Freeze, Propane, Butane & Natural Gas Company? But what about our plastics and polyethylene? And all the rest? We just had to make a decision. And we did. We decided to leave our name Northern Natural Gas Company. We think it has a touch of nostalgia.



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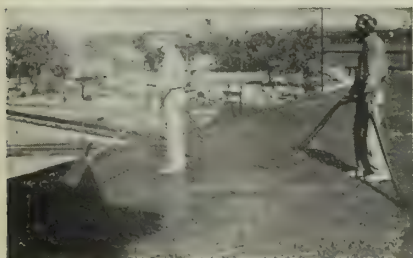
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Arcata National is a lumber company that soon will have no lumber.



SINCE 1939 tiny Arcata Redwood Co. has very profitably felled the lofty sequoia trees of Northern California, netting a spectacular 28% on sales in 1964. But that year it decided to diversify, so it hired then 33-year-old Harvard MBA Robert O. Dehlendorf II for the task. Diversify he did. Well-armed with modern management theory, Dehlendorf changed the company's name to Arcata National Corp., moved its headquarters to Menlo Park, Calif. and acquired two major printers, a specialized printer of aircraft parts catalogues and a mélange of small companies.

Sales rose from \$8 million in 1964 to an estimated \$175 million in fiscal 1970. Per-share earnings increased from 48 cents to around \$1.45. Today lumber accounts for only 7% of sales. But the diversification had a flaw. Earnings growth lagged far behind sales growth, and fully one-third of this year's earnings still came from the old lumber business.

It might appear that Dehlendorf should go back to the lumber business, but he no longer has that option. In 1968 Congress created Redwood National Park, taking roughly half of Arcata's 22,100 acres of redwood. Arcata has received \$18 million in compensation to date, far short of the estimated value of the land (still under negotiation), which outside sources place at between \$50 million and \$100 million. Moreover, sustained yield production with the remaining timberland is impossible, according to Dehlendorf. So unless it receives additional land as partial compensation, Arcata will be out of the lumber business altogether in about ten years.

Taking the brighter view, that at least gives Dehlendorf, who became president in 1967, a little time to improve his other operations. His heaviest millstone, J.W. Clement, is a magazine and paperback printer acquired in 1965 that accounts for half of Arcata's sales. Because of high start-up costs of three new presses, Clement's

pretax income contribution slipped below 1969's already weak 34%. Kingsport Press (25% of sales), a hardcover printer acquired in 1969, upped its income share from 13% to about 20%, but still isn't carrying its own weight. Butler Data Systems, a 1968 purchase, makes shop manuals for the aircraft industry (Boeing is its biggest customer) and has suffered accordingly.

Going Swimming

Dehlendorf is working feverishly to prod these laggards along. Over \$72 million has been spent for capital improvements, \$30 million in fiscal 1970 alone. There has been some successful belt-tightening at Kingsport, and the new Clement presses should start paying off soon. But both Arcata's printing and lumber businesses swing with the economy, and the outlook is just not good. It's unlikely that Arcata can match fiscal 1970 results in 1971. "You can walk on water just so long," admits Dehlendorf. "This year is going to be tough."

While Dehlendorf has his hands full with the printing business, he's putting 2% of Arcata's net income into a subsidiary called Arcata Investment Co., which provides capital for small companies started by members of minority groups. "Corporations have a big role to play in solving urban problems, but not just as social do-gooders," he says. "What we try to do is back the right man with the right idea in the right marketplace."

Lately Dehlendorf has also been buying a hodgepodge of little firms, the kind that could suddenly mushroom into giant corporations—or wither away just as quickly. With a low debt-to-equity ratio and several years left of high cash flow from the Redwood sale (taxed mostly at a capital gains rate), Dehlendorf can afford to experiment some more. Hopefully, some of his Harvard theories will work. His difficulty is that when he's finally out of the redwood business, he still may not be out of the woods. ■

Chalk on a Shoestring

O. Roy Chalk, the Washington transportation wheel, has always managed to get out of tight fixes before. Can he do it again?

By ROUTINE business standards, O. (for Oscar) Roy Chalk, the 63-year-old Bronx lad who married a rich wife and then displayed the political acumen needed to turn a tiny Manhattan realty business into a financial empire built around Trans Caribbean Airways, is in real trouble. But then, Roy Chalk is scarcely your routine businessman.

Chalk and his wife, the former Clair Cole, control about one-third of TCA, which hasn't seen black ink since 1965. Last year it lost \$11 million, despite record \$53-million revenues. His other major holding, Washington's D.C. Transit Systems, Inc., the largest U.S. privately run local bus company, has also not earned an operating profit since 1965. Chalk's empire is in such disarray that Peat Marwick & Mitchell, his accountants, are currently refusing to "express an opinion" on TCA's financial statement. Still, Roy Chalk himself could come out in surprisingly strong financial shape—if, that is, Congress will only cooperate and if a pending TCA-American Airlines merger goes through.

Chalk has long been short on cash but long on financial leverage and political clout. He started Trans Caribbean as a tiny cargo operation just after World War II, then built up a passenger business by ferrying Puerto Ricans at rock-bottom fares between San Juan and New York during the great postwar migration. More recently he garnished his airline with profitable military contracts. A Democrat who personally knew Harry Truman, Chalk was savvy enough to hire Dwight Eisenhower's brother-in-law as his public relations man in the Fifties, and far-seeing enough to become an early John Kennedy supporter. Back in 1956, when subsequently imprisoned financier Louis Wolfson had run D.C. Transit into the ground, Chalk became a local Washington hero by buying it for just a half-million-dollar down payment. With typical flair, Chalk quickly re-equipped the line with green-and-white air-conditioned buses and caused a huge traffic jam by parading them through downtown Washington.

The honeymoon lasted ten years. Then in 1966 the Chalk empire's parent company, TCA, showed its first deficit. TCA had been making most of its profit from its military business. Between 1965 and 1967, however, its military contracts declined partly because of a hangar fire that destroyed

one of its planes. When they bounced up again, they never reached the level for which Chalk had planned in his aircraft purchases and leases. Meantime, TCA has gone heavily in debt for new jets. By last year's end, it had \$26 million in long-term debt and was almost \$13 million in arrears on airplane leases and mortgage and other obligations. Now Pentagon officials report that they plan to curtail drastically TCA's remaining contracts.

In Hock to Himself

Chalk has aggravated his problems by his willingness to mortgage one part of his business to another. Today all of his empire, with the exception of D.C. Transit, which was spun off two years ago (Chalk still owns 30%), is consolidated under Trans Caribbean Airways, Inc. The subsidiaries range from real estate along Manhattan's Fifth Avenue and *El Diario-La Prensa*, New York's prosperous Spanish-language newspaper, to the struggling Puerto Rican UHF television station, WTSJ-TV, which Chalk bought back in 1966.

To tie it all together, Chalk has used a combination of debt and inter-company loans. After separating D.C. Transit from TCA in 1968, he put up his own D.C. Transit stock, worth over \$1 million, to help TCA buy jets. By that time, TCA had already begun making advances to subsidiary companies until by last year's end they owed TCA over \$8 million. To add to TCA's troubles, TCA may also be contingently liable under a \$9-million IRS income-tax suit against its former subsidiary, D.C. Transit.

This is not the only trouble afflicting D.C. Transit. At one time, Chalk's purchase of D.C. Transit had seemed a story-book deal. After putting up only \$500,000 cash for D.C. Transit, by 1968 he had paid off the rest of the \$13-million purchase price, partly with fare money, partly by selling off D.C. Transit properties. What really upset Washingtonians was the putting of D.C. Transit property into subsidiaries that no longer could be controlled by the local transit authority. Instead of generating profits for the bus company, these properties supplied financing for other company-sponsored ventures.

For example, an old street-car barn in Washington's fashionable Georgetown section was sold to subsidiaries for about \$75,000, then had \$1 million of improvements put into it, and was then mortgaged for \$2.5 million. Ac-



Chalk of Trans Caribbean

cording to an estimate by the Washington Metropolitan Area Transit Commission, D.C. Transit sold to subsidiaries properties worth \$6 million for approximately one-sixth of their true value. In 1966, when some \$12 million more of D.C. Transit properties were still available for such transfers, the local transit authority finally issued an order prohibiting any further ones.

None of this made D.C. residents—or Congress, which governs the voteless District—very receptive to Chalk's explanations when D.C. Transit began to encounter operating problems in 1966: costly labor demands, vandalism, resistance to rising fares, especially from ghetto residents. In 1966 D.C. Transit lurched into the red, and it took heated battles to win two fare hikes. Congress and District authorities wanted Chalk to sell or mortgage D.C. Transit's remaining real estate to subsidize his bus operations. Finally, last Apr. 15 the Senate voted to buy out Chalk at a

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Condensed Balance Sheets

	June 30, 1970	June 30, 1969
Cash	\$ 20,118,356	\$ 13,668,118
Receivables, net of reserve	217,538,132	153,554,180
Prepayments	945,836	616,934
	<u>\$238,602,324</u>	<u>\$167,839,232</u>
Senior notes payable—		
Banks	\$ 18,600,000	\$ 17,292,000
Short-term investors	167,136,000	93,384,000
	<u>\$185,736,000</u>	<u>\$110,676,000</u>
Accrued taxes and other		
payables	1,540,246	22,828,321
Deferred discount revenue	4,086,035	2,128,065
Subordinated debt, 1972-75	16,500,000	9,500,000
Junior subordinated debt,		
1972-75	13,000,000	8,000,000
Shareholder's equity—		
Common stock	12,147,860	12,147,860
Retained earnings	5,592,183	2,558,986
	<u>\$238,602,324</u>	<u>\$167,839,232</u>

American Express Credit Corporation finances accounts receivable purchased from the American Express Card Division of American Express Company. Funds to carry the receivables are provided principally through the sale of notes to short-term investors in the commercial paper market. Bank lines of credit aggregate \$191 million from 51 banks.

Inquiries concerning its commercial paper notes will be welcomed by Credco (516 248-0177) or Goldman, Sachs & Co. (212 676-8390).

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price to be set by a local jury. Chalk has hinted he will sell, but only at his price—around \$30 million—or if a body other than one composed of local citizens sets the price. The issue now rests with the House District Committee, which alarms local citizens, many of whom feel the Committee is too sympathetic to Chalk's viewpoint.

Rescue?

Despite this tangle, Chalk is likely to come through with a fatter shoe-string than he started with. For one thing, his major enterprises can scarcely be allowed to go to pot. In view of TCA's financial straits, the Civil Aeronautics Board is likely to approve the proposed TCA-American merger despite objections from Caribbean competitors Eastern and Pan American. American is presumably more interested in TCA's routes, which provide an entry into the winter-vacation market, than in its planes, which are mostly Douglas DC-8s in contrast with American's equipment, which is predominantly Boeing.

CAB approval had better come soon. Since last March American has advanced TCA \$5 million, in July asked the CAB's permission to put up \$2 million more, and has already agreed to advance a total of as much as \$10 million. To be sure, the merger agreement has a number of conditions that would allow American to bow out. But if the CAB and American stockholders approve, Chalk will end up with some \$4.3 million worth of American stock, plus a seven-year, \$40,000 annual consulting fee and an agreement by American Airlines to forego \$6 million of \$8 million in debts owed to TCA by TCA's subsidiaries. The subsidiaries, including *El Diario-La Prensa*, are not included in the deal and thus would remain in Chalk's control.

Chalk is also in a strong position in D.C. Transit. He has already sold off large parts of the company. And even if he has to take a smaller price for what is left, he will probably still wind up making more than his original \$500,000 down payment.

Chalk's slide hasn't been painless, of course. Since 1965, TCA stock has slipped some 12 points to 2½, and D.C. Transit is down from 6½ to 1½ since it was spun off in 1968. From their highs he has taken an over-\$15-million paper loss in TCA (disregarding the fact that much of his family holding is in Class B shares, which are convertible in the more salable Class A shares) and \$3 million in D.C. Transit. But against these paper losses must be put the solid assets he will end up with in stock and real estate. And they are solid indeed. ■

The Funds

Mutual Funds:

1970

"... don't listen to the salesman who tells you not to worry about *down* markets because the big trend is up. Maybe the big trend is up, but the intermediate *downs* aren't necessarily little ones. And sometimes people are *forced* to sell during the *downs*. How many have had to sell stocks or funds this year because they needed money and couldn't get it from the bank? Sure, their stocks will go up again, but somebody else will own them. For few, if any, humans is downside risk a matter of no concern."

—FORBES Fund Survey, 1969

IT WAS A VINDICATION we would gladly have foregone, but a solid vindication all the same: In 15 years of surveying mutual funds, FORBES has warned against thinking of funds as riskless investments. We've urged readers to judge funds, not just on their ability to make money in bull markets but also on how well they protect money in bear markets. For this reason, FORBES has long rated funds on two scores: their performance in *up* and in *down* markets.

Mutual fund stockholders have taken a bad beating in the past 18 months. The FORBES stock fund average is down 38.7% for the period, while the S&P 500 is off 36.1%. But study the ratings on the following pages. By and large, those funds with a good FORBES rating for *down* markets got off a good deal easier than those with poor FORBES scores. Those who bought mutual funds purely on their performance in *up* markets were far more badly hurt than those who took both factors into account.

The Price of Risk

An example: The Windsor Fund showed a drop of 29% over the 1968-70 bear market. Channing Special Fund, meanwhile, dropped 66.3%—more than twice as much. The FORBES ratings show why: Windsor rates an above-average B in *down* markets; Channing Special rates a failing F. In *up* markets, Windsor rated a superior A, Channing an even better A+. The moral is very clear: Channing achieved its slightly better performance in ris-

ing markets by taking a greater risk.

Remember this: It doesn't do an investor much good to know that a fund did well between 1962 and 1968 if he didn't buy it until 1968. A good many people *are* in this position (roughly 20% of year-end 1969 mutual fund shareholders have invested since January 1968); they were attracted to funds in 1968 and 1969 by reports of spectacular performance. They got in just in time to see that performance

reverse itself. The hottest funds were often the worst hit.

Take Enterprise, the hot fund that built up nearly \$1 billion in assets mostly through buying stocks of smaller companies. It made a lot of money for its early stockholders. Even today, a man who put \$1,000 into Enterprise in 1962 would have shares worth \$3,600. But there weren't very many of these lucky fellows. The great majority—99% in fact—of Enterprise's shareholders



Oops! Chasing high-flying stocks in search of big short-term gains led go-go funds onto dangerous ground. Then the avalanche began in late 1968. No fund escaped the great crash of 1969-70, but the more speculative ones suddenly found they had been walking on thin air.

The Funds

came in after 1962. The bulk of them have considerable losses.

There is no question about it, however: Any investor would have done better by getting out of funds entirely than by sitting with even the best of them through 1969 and 1970. In theory, this should not have been the case. In theory a mutual fund is a managed investment. Its wise managers, seeing a crash coming, should move entirely into cash or short-term bonds. *In theory.* In practice, they almost never do.

There are many reasons for this, but they boil down to this: Being 100% in cash is simply not in the nature of the beast. For one thing, no sensible fund manager can be that sure of his timing: How foolish he would look with all cash if the market suddenly turned around! To be sure, commercial paper was yielding around 9% during the crash, Treasury notes 8% or more and some stock funds *did* find some protection by turning as much as 40% of their portfolio into such cash equivalents. But this was no risk-free investment, either—witness the debacle of the Penn Central's commercial paper, which holders are

now starting to write off as a loss.

In addition, many funds were required by their charter to keep a certain percentage of their assets in common stocks. Even funds that didn't have this restriction usually feel they cannot justify a portfolio that was 100% cash or cash equivalent when the shareholders were being charged a professional money management fee, and in many cases an 8.5% sales charge as well.* For better or for worse, funds are locked into the market.

Remember, then, this basic truth: While a fund can do better or worse than the stock market, it cannot do very different than the stock market. Money committed to mutual funds is, in the end, money committed to common stocks—to the risks in common stocks as well as the opportunities. Very considerable risks, as the past few years

*To adjust the Dollar Results figure for the effect of the loading charge, simply multiply the Dollar Result figure by the amount of the loading charge; move the decimal point two places to the left; then subtract the resulting figure from the original Dollar Result. (Example: A fund has a dollar score of \$250 and a loading charge of 8%. Multiplying 8 by 250 and moving the decimal point two places to the left gives \$20. Subtracting \$20 from \$250 leaves \$230. This is the amount the investor would have at the end of the period had he bought \$100 worth, paying the standard loading charge.)

have shown. Risks which not everybody could or should bear.

For all of those reasons, in looking back on the performance of the industry over the past 18 months, we've felt it necessary to make some downward adjustments in the rating system.

FORBES rates funds in terms of how well they do in rising markets and how well they do in falling markets—not how they perform over some arbitrary chronological period like a year. What we look for is *consistency* of performance. We rate funds on the basis of how they performed in *six* different periods over the past decade: three rising markets (Sept. 30, 1960 to Dec. 31, 1961; June 30, 1962 to Feb. 9, 1966; and Oct. 7, 1966 to Nov. 29, 1968); and three falling markets (Dec. 31, 1961 to June 30, 1962; Feb. 9, 1966 to Oct. 7, 1966, and the current one, Nov. 29, 1968 to May 26, 1970). To earn an A rating in either *up* or *down* markets, a fund must have done well in *all* three periods.

To arrive at specific ratings we measure mutual funds against each other—not against some absolute scale. In past years we've awarded ratings from A to D. Of the top 25%, the better half got A+ and the lower half got just A. This was really superior performance. The next 25% got B for average performance. The remaining 50% got either C or D for below-average performance.

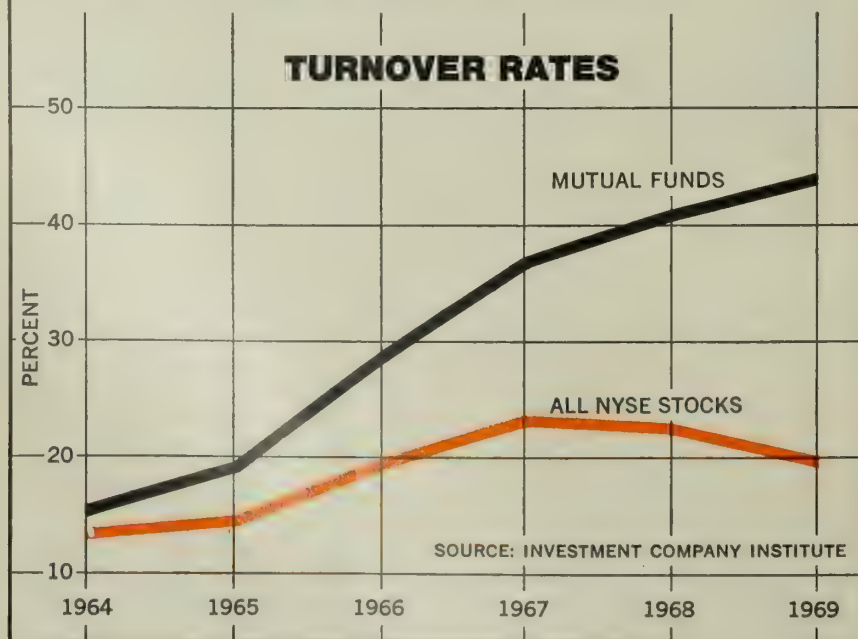
But how many funds really deserved an A rating for performance in the most recent 18-month market crash? Very, very few, in our opinion. Certainly not 25% of them. Moreover, some had records that were not simply bad but were in fact disastrous—far worse than the D rating we gave to the poorest 25% in 1969.

So this year we've stiffened the criteria considerably for *down* market ratings. (The ratings for *up* markets remain unchanged from last year, of course, since there hasn't been a sustained rising market since our last mutual fund survey.) Basically, a fund gets a B rating in *down* markets this year only if its average performance over the three declining markets was better than the S&P 500—giving extra weight to the recent 18-month crash. If it did an outstanding job in the crash, it got an A. Funds

(Continued on page 69)

INVESTORS OR TRADERS?

Before 1965 the turnover rate for all mutual funds was around 16%. Enter the gunslinger in the mid-Sixties, who sacrificed everything to rapid capital gains. Result: Turnover soared to nearly 50%. In many funds, particularly the go-go funds, the investor's stake came to depend solely on the trading acumen of the portfolio manager.



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In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
\$100 ENDED AS...								
—	—	Standard & Poor's 500 Stock Average	\$132.82	\$63.94	4.4%			
B	C	FORBES Stock Fund Average	\$146.06	\$61.34	3.3%			
STOCK FUNDS (LOAD)								
B	D	Aberdeen Fund	\$136.88	\$59.33	3.0%	\$ 30.2	8.75%	\$0.78
		Admiralty Funds (formerly B.C. Morton Fund)						
A	F	Growth Series	125.09	31.99	0.2	24.6	8.75	0.99
D	A	Income Series	125.73	69.62	5.6	7.8	8.75	0.99
B	C	Insurance Series	103.66	63.53	1.7	3.3	8.75	0.99
C	F	Advisers Fund	107.77	49.32	2.7	2.7	8.50	0.59
C	B	Affiliated Fund	131.82	61.60	5.4	1,307.1	7.50	0.31
B	F	American Express Capital Fund (formerly Commonwealth Capital Fund)	157.28	50.03	3.0	145.5	8.50	0.67
B	D	American Express Stock Fund (formerly Commonwealth Stock Fund)	141.78	59.85	4.0	55.1	8.50	0.66
A	D	American Growth Fund	156.09	58.83	2.8	11.5	8.50	1.00
C	B	American Mutual Fund	143.54	64.34	5.5	297.7	8.50	0.58
B	F	American National Growth Fund	166.55	56.05	3.3	5.8	8.50	0.98
A	F	Anchor Growth Fund (formerly Diversified Growth Stock Fund)	171.87	50.91	2.2	354.8	8.75	0.61
D	C	Associated Fund Trust	115.24	62.57	7.6	52.6	8.75	0.75
A	D	Axe-Houghton Stock Fund	251.67	57.36	1.8	66.4	8.50	1.02
B	F	Axe Science Corp.	181.52	49.59	4.0	38.8	8.00	0.76
C	C	Bondstock Corp.	143.00	60.07	4.0	22.1	8.50	0.70
D	B	Broad Street Investing Corp.	138.11	68.81	4.1	304.0	8.50	0.23
B	B	The Brown Fund of Hawaii	139.65	74.02	2.6	4.1	8.50	0.88
C	B	Bullock Fund	140.42	62.28	4.1	123.9	8.67	0.40
A+	F	Businessman's Fund (formerly McDonnell Fund)	150.09	52.51	2.7	14.4	8.75	0.77
A	F	Capital Investors Growth Fund	133.72	44.69	0.9	2.7	8.75	1.00
B	F	Capital Shares	82.10	53.03	1.5	42.0	8.75	1.00
B	C	Century Shares Trust	103.00	66.02	2.9	74.0	8.50	0.44
		Channing Funds						
C	B	Common Stock Fund	142.01	65.45	4.2	26.1	8.50	0.74
A	F	Growth Fund	144.08	41.63	2.3	188.7	8.50	0.63
A+	F	Special Fund	154.19	33.70	1.8	85.2	8.50	0.72
A	F	The Chase Fund of Boston	175.01	42.56	3.2	67.5	8.50	0.68
A	B	Chemical Fund	221.53	71.65	2.4	437.2	8.50	0.39
D	B	The Colonial Fund	130.10	61.55	5.2	191.5	8.50	0.50
B	F	Colonial Growth Shares	169.07	52.95	2.5	54.0	8.50	0.71
B	D	Commerce Fund	144.18	58.69	3.5	74.0	8.50	0.65
A	B	Common Stock Fund of State Bond and Mortgage Company	203.46	63.87	2.1	21.4	8.00	0.86
D	D	Commonwealth Fund Indenture of Trust Plans A & B	115.97	58.22	5.4	26.2	7.65	0.60
D	C	Commonwealth Fund Indenture of Trust Plan C	117.52	61.28	5.2	42.0	7.50	0.74
B	B	Composite Fund	156.00	61.55	4.5	35.1	8.00	0.75
B	F	Consumers Investment Fund	162.04	45.88	1.2	7.2	8.50	0.75
D	B	Corporate Leaders Trust Fund Certificates, Series "B"	98.47	69.19	5.0	51.3	7.64	0.18
		Crown Western Investments						
C	F	Dallas Fund	130.52	37.52	2.5	7.2	8.50	1.00
B	D	Diversified Fund	133.26	57.18	2.8	14.9	8.50	1.00

* Fund rated for two periods only; maximum allowable rating A.

WHAT THE RATINGS MEAN

FORBES rates mutual funds on the basis on their performance in three rising markets and three falling markets. We rate funds against each other rather than on an absolute scale. In up markets the top 12.5% get an A+; the next 12.5% get A, the next 25% get B; the next 25% get C; the lowest 25% get D. In down markets, reflecting the poor performance in the recent crash, we also give F ratings. As a result, a fund gets a B rating in down markets only if its average performance over three down markets was better than the S&P's 500. Funds that did an outstanding job in the recent crash got an A. Those that didn't beat the averages at all got a C, D, or F depending on how poorly they fared, giving particular weight to the most recent down market.

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In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
			\$100 ENDED AS . . .					
—	—	Standard & Poor's 500 Stock Average	\$132.82	\$63.94	4.4%			
B	C	FORBES Stock Fund Average	\$146.06	\$61.34	3.3%			
STOCK FUNDS (LOAD)								
D	B	Decatur Income Fund	\$155.46	\$67.74	5.8%	\$ 89.0	8.50%	\$0.72
A	D	Delaware Fund	193.61	58.81	4.0	365.3	8.50	0.64
D	B	Dividend Shares	138.73	68.84	3.9	298.1	8.67	0.46
A	C	Dreyfus Fund	177.45	60.29	3.4	1,812.1	8.75	0.56
C	C	Eaton & Howard Stock Fund	126.51	59.30	3.7	176.7	8.50	0.57
A	F	Enterprise Fund	360.10	42.53	none	406.4	8.50	0.99
B	C	Equity Fund	137.04	62.01	4.5	34.2	8.50	0.63
C	F	F-D Capital (formerly Hanover Fund)	81.10	51.70	3.8	1.2	8.00	2.90
A	F	Fairfield Fund	175.34	41.97	0.7	39.0	8.50	0.76
B	B	Federated Growth Fund	163.98	65.82	2.6	12.8	8.50	0.94
A	C	Fidelity Capital Fund	217.63	59.49	4.1	483.0	8.50	0.53
B	B	Fidelity Fund	172.02	66.54	4.3	674.4	8.50	0.48
A+	D	Fidelity Trend Fund	224.98	56.66	3.4	814.8	8.50	0.50
B	D	Financial Industrial Fund	138.79	57.71	3.8	254.6	8.50	0.66
D	B	First Investors Fund	122.22	63.20	3.7	25.4	8.75	0.65
B	D	First National Fund	132.06	60.96	2.9	7.6	8.50	0.78
A	B	First Sierra Fund	176.21	61.94	3.3	17.2	8.80	0.82
C	F	Florida Growth Fund	137.32	52.56	none	6.4	8.50	0.84
C	C	Founders Mutual Fund	135.18	62.92	3.8	153.3	8.50	0.39
B	F	Foursquare Fund	133.43	56.08	3.8	8.8	8.50	1.00
B	C	Franklin Custodian Funds						
D	B	Common Stock Series Shares	159.26	65.02	1.6	9.8	8.75	0.85
B	F	Utilities Series	95.86	68.46	4.6	17.0	8.77	0.89
B	F	Fund of America	132.25	55.38	2.0	59.0	8.75	0.77
B	D	Fundamental Investors	131.69	59.11	3.6	873.5	8.75	0.49
B	F	Group Securities						
D	B	Apex Fund (formerly Aerospace-Science Fund)	142.39	52.08	1.9	14.9	8.50	0.75
A	F	Common Stock Fund	127.82	67.97	5.1	254.9	8.50	0.72
A	F	Gryphon Fund (offered publicly 4/63)	—	51.58	2.0	51.5	8.50	0.73
C	F	Hamilton Funds Series H-DA	107.73	55.37	5.5	473.1	8.50	0.62
C	C	Harbor Fund	137.74	58.85	7.0	97.4	8.50	0.82
—	—	The Heritage Fund†	—	40.38	none	1.6	8.50	4.60
B	C	ICM Financial Fund (formerly Insurance & Bank Stock Fund)	123.19	83.17	1.2	2.2	8.75	1.00
B	C	Imperial Capital Fund	150.99	66.04	2.8	27.5	8.50	0.79
C	D	Integon Growth Fund						
A	C	(formerly Security Diversified Shares)	105.45	40.42	4.0	6.2	7.50	0.60
D	C	The Investment Co. of America	185.05	63.12	4.3	897.5	8.50	0.48
D	C	Investment Trust of Boston	138.79	65.70	3.3	66.0	8.50	0.60
A	C	Investors Research Fund	247.08	69.08	3.2	4.4	8.50	1.00
D	C	Investors Stock Fund	114.65	60.26	3.3	1.7	8.00	0.30
A	F	Investors Variable Payment Fund	133.60	53.51	2.8	716.7	8.00	0.34
B	D	ISI Trust Fund	86.60	57.32	2.0	516.4	8.85	0.57

*Transferred from balanced section in 1970; would have ranked A+, D as a balanced fund.

•Fund rated for two periods only; maximum allowable rating A. †Changed investment policy in 1967; not ranked.

EXPLANATION OF COLUMN HEADINGS

Annual expenses include management fees and operating expenses as a percentage of average net assets.

Only funds in existence for at least six of the measured periods are given a FORBES performance rating. All capital gains distributions have been reinvested, but income dividends have not. All ratings are based on investments at net asset value and do not allow for sales charges.

In Dollar Results section, the 1962-70 period covers the period from June 30, 1962 to June 30, 1970; the recent market decline covers the period from November 29, 1968 to May 26, 1970. Dividend Return is based on June 30, 1970 net asset value and the income payout for the preceding 12-month period.

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In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
\$100 ENDED AS...								
B	C	Standard & Poor's 500 Stock Average	\$132.82	\$63.94	4.4%			
		FORBES Stock Fund Average	\$146.06	\$61.34	3.3%			
STOCK FUNDS (LOAD)								
C	C	Istel Fund	\$171.27	\$56.98	2.7%	\$ 87.4	3.00%	\$0.74
A+	C	Ivest Fund	275.99	59.92	1.3	225.3	8.50	0.68
		Keystone Custodian Funds						
A	D	K-2	152.99	58.07	2.6	223.8	8.30	0.52
D	B	S-1	131.54	64.76	3.4	41.9	8.30	0.52
C	C	S-2	133.52	61.39	5.0	103.6	8.30	0.52
A	D	S-3	191.50	56.79	2.6	132.5	8.30	0.52
A+	F	S-4	167.56	43.02	0.9	404.8	8.30	0.52
B	C	The Knickerbocker Fund	143.77	60.96	4.1	9.9	8.70	1.00
A+	F	Knickerbocker Growth Fund	205.24	48.51	1.3	7.0	8.70	0.99
B	C	Lexington Research Fund	164.29	59.80	1.0	88.6	8.50	0.77
B	F	Liberty Fund	114.95	55.34	5.8	10.4	8.50	0.97
B	C	Life & Growth Stock Fund	90.18	68.73	1.5	8.0	8.50	1.01
C	D	Life Insurance Investors	92.09	62.90	1.7	62.4	8.50	0.59
D	A	Magna Income Trust (formerly Lexington Income Trust)	105.37	70.75	6.7	4.8	8.50	1.00
D	B	Horace Mann Fund	115.82	67.60	2.5	11.0	4.00	0.79
B	C	Massachusetts Investors Growth Stock Fund	166.64	64.50	2.1	914.8	8.50	0.32
D	B	Massachusetts Investors Trust Fund	134.14	67.50	4.0	1,702.1	8.50	0.20
B	D	Mid America Mutual Fund	130.45	58.40	2.8	13.9	8.50	0.91
		Moody's Capital Fund*	121.95	53.53	2.4	29.0	8.50	1.00
		Mutual Investing Foundation						
D	B	MIF Fund	141.57	65.48	5.7	138.9	7.50	0.58
B	D	MIF Growth Fund	137.89	58.18	3.2	15.9	7.50	0.75
A	F	Mutual Securities Fund of Boston	178.33	37.57	2.0	2.2	8.50	0.97
B	C	National Investors Corp.	181.66	66.96	2.4	592.0	8.50	0.23
		National Securities						
A	D	Growth Stock Series	186.29	61.46	3.6	206.9	8.50	0.62
D	B	Stock Series	130.01	62.10	5.5	270.1	8.50	0.60
		Newton Fund††	159.07	64.54	2.1	13.3	8.50	0.75
D	D	Old Dominion Investors' Trust	117.02	58.80	7.9	2.7	1.00	0.85
A+	D	Oppenheimer Fund	239.36	59.53	1.5	279.1	8.50	0.40
A	A	Over-the-Counter Securities Fund	251.64	78.80	2.2	4.0	8.00	1.38
D	A	Paramount Mutual Fund	170.09	78.98	4.4	5.1	8.50	0.87
C	B	Philadelphia Fund	148.82	65.85	2.8	67.1	8.75	0.76
A	F	Pioneer Enterprise Fund	151.40	47.26	2.0	4.0	8.50	1.00
B	B	Pioneer Fund	173.38	64.09	4.0	146.5	8.50	0.65
A	D	Planned Investment Fund	208.38	53.54	1.0	2.1	8.50	1.64
D	B	Puritan Fund	145.59	66.06	6.1	672.8	8.50	0.46
A	D	Putnam Growth Fund	169.14	61.01	3.7	554.7	8.50	0.52
D	B	Putnam Investors Fund	147.97	66.77	2.2	236.1	8.50	0.57
C	F	Republic Technology Fund	92.65	46.68	3.2	16.3	8.75	1.00
A+	F	Revere Fund	172.29	47.35	none	13.0	8.50	1.40
		Salem Fund (formerly Dow Theory Investment Fund)*		51.83	4.8	94.3	8.50	0.66
D	B	Security Investment Fund	149.04	67.22	6.3	14.7	8.50	0.70
B	B	Selected American Shares	159.87	67.79	3.1	776.0	7.50	0.61
C	D	Shareholders' Trust of Boston	126.95	56.17	5.5	88.1	8.50	0.69
C	B	Sigma Investment Shares	137.46	62.70	4.1	37.8	8.50	0.76
B	B	Southwestern Investors	143.45	63.32	5.1	20.7	7.50	0.64
D	B	Sovereign Investors	127.74	70.45	4.4	5.1	8.67	0.90
B	C	State Street Investment Corp.	157.19	61.62	2.6	305.3	†	0.48
A+	F	Steadman American Industry Fund	136.74	43.94	none	7.7	8.75	0.99

*Fund rated for two periods only; maximum allowable rating A. *Changed management in 1967; not ranked.
 **Information prior to 1964 not available; not ranked. †Fund no longer selling new shares; existing shares traded over-the-counter.
 ††Changed investment policy in 1963; not ranked.

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In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
\$100 ENDED AS...								
B	C	Standard & Poor's 500 Stock Average	\$132.82	\$63.94	4.4%			
		FORBES Stock Fund Average	\$146.06	\$61.34	3.3%			
STOCK FUNDS (LOAD)								
B	D	Steadman Fiduciary Investment Fund	\$131.66	\$58.85	3.4%	\$ 9.0	8.75%	\$0.83
B	F	Steadman Science & Growth Fund	107.68	38.56	2.0	27.0	8.75	0.76
D	C	Supervised Shares	114.04	60.20	4.3	5.3	8.00	0.89
B	D	Technology Fund	162.29	62.09	3.5	495.8	8.25	0.54
Twentieth Century Investors								
A+	F	Growth Investors	136.28	38.47	0.6	8.0	8.75	1.01
C	D	Income Investors	124.40	57.08	6.7	1.5	8.75	1.02
United Funds								
D	D	Accumulative	113.50	56.92	none	903.9	8.75	0.39
C	C	Income	137.62	62.13	3.6	615.0	8.75	0.39
B	F	Science	145.72	54.38	2.9	316.7	8.75	0.40
The Value Line Fund								
A	F	The Value Line Fund	181.13	46.78	2.7	43.3	8.75	0.73
D	C	The Value Line Income Fund	117.60	58.75	6.8	67.2	8.75	0.75
A+	F	The Value Line Special Situations Fund	190.96	34.62	0.9	137.1	8.75	1.00
A	F	Vanderbilt Mutual Fund	178.94	46.53	2.6	12.9	8.50	1.00
C	B	Varied Industry Plan	125.61	61.70	4.4	8.8	8.00	1.02
Venture Securities								
A	F	Venture Securities	112.70	46.32	none	1.1	8.50	2.60
B	D	Viking Growth Fund	148.94	59.94	1.6	1.9	8.00	1.00
D	B	Wall Street Investing Corp.	125.35	66.73	3.8	13.6	8.50	0.65
C	B	Washington Mutual Investors Fund	147.68	65.29	5.0	225.8	8.50	0.68
Western Industrial Shares								
A+	F	Western Industrial Shares	161.25	40.82	none	5.4	8.50	0.50
A	B	Windsor Fund	213.60	71.00	3.2	306.7	8.50	0.76
A+	F	Winfield Growth Fund	193.42	41.97	0.6	108.8	8.50	0.62
C	A	Wisconsin Fund	150.31	71.50	3.7	26.0	8.50	0.66
STOCK FUNDS (NO-LOAD)								
C	A	Leon B. Allen Fund	186.94	69.44	none	2.1	1.00*	1.43
A+	F	American Investors Fund	193.75	35.63	0.9	179.1	none	0.86
B	B	David L. Babson Investment Fund	174.38	71.07	2.2	28.7	none	0.87
C	F	Concord Fund	114.29	42.09	4.4	1.9	none	1.00
A	B	de Vegh Mutual Fund	186.50	61.72	3.7	51.9	none	0.53
Drexel Equity Fund								
A	F	Drexel Equity Fund	235.54	51.78	2.2	40.7	none	0.80
A	D	Energy Fund	167.23	60.60	3.7	110.4	none	0.84
B	C	General Securities	165.67	63.80	3.5	5.5	none	1.00
C	C	Growth Industry Shares	136.80	63.45	2.6	31.3	none	0.51
C	B	Guardian Mutual Fund	149.63	64.37	3.7	41.2	none	0.79
Hedberg & Gordon Fund								
A	C	Hedberg & Gordon Fund	187.32	57.78	2.8	10.6	none	0.96
B	F	Ivy Fund	224.37	45.04	3.5	44.8	none	0.92
B	B	The Johnston Mutual Fund	182.86	66.98	1.9	116.2	none	0.72
A	D	Loomis-Sayles Capital Development Fund	167.66	55.09	2.6	45.3	none	0.77
B	C	Mairs & Power Growth Fund	180.55	62.51	2.0	5.5	none	0.69
Mutual Shares								
B	C	Mutual Shares	177.21	55.81	2.1	7.1	none	1.46
D	D	Mutual Trust	95.46	57.03	7.8	8.0	none	0.90
D	C	Nassau Fund	112.79	61.89	3.7	6.3	none	0.91
A+	F	National Industries Fund	156.32	50.24	2.4	4.6	none	1.00
D	B	Nelson Fund	123.40	67.19	1.8	3.3	none	1.34
The One William Street Fund								
C	C	The One William Street Fund	139.44	63.20	2.5	208.2	none	0.47
A	C	Penn Square Mutual Fund	183.14	62.51	4.6	131.3	none	0.57
D	A	Pine Street Fund	133.29	69.64	5.0	40.1	none	0.50
Rittenhouse Fund								
B	B	Rittenhouse Fund	Refused to supply information					
		T. Rowe Price Growth Stock Fund	176.89	67.90	2.2	484.0	none	0.50

* Fund rated for two periods only, maximum allowable rating A.
* Entrance fee.

Forbes

Fund Ratings

1970

PERFORMANCE RATINGS

DOLLAR RESULTS

In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
\$100 ENDED AS...								
—	—	Standard & Poor's 500 Stock Average	\$132.82	\$63.94	4.4%			
B	C	FORBES Stock Fund Average	\$146.06	\$61.34	3.3%			
C	D	FORBES Balanced Fund Average	\$109.77	\$67.18	5.0%			
STOCK FUNDS (NO-LOAD)								
A	F	Rowe Price New Horizons Fund	\$294.78	\$55.02	1.2%	\$113.7	none%	\$0.69
—	—	Scudder Special Fund (offered publicly 5/66)	227.17	58.86	2.9	148.4	none	0.64
D	A	Scudder Stevens & Clark Balanced Fund	102.22	69.39	4.0	70.5	none	0.63
D	C	Scudder Stevens & Clark Common Stock Fund	112.38	59.51	3.0	108.5	none	0.62
B	C	Stein Roe & Farnham Stock Fund	147.77	60.65	2.5	96.9	none	0.55
D	B	Variable Stock Fund	151.34	71.20	2.5	2.3	none	0.87
CLOSED-END INVESTMENT COMPANIES								
							Where Traded	
K	B	Abacus Fund	178.56	70.40	none	47.9	NYSE	1.00
C	B	Adams Express	151.93	70.43	4.4	142.3	NYSE	0.50
D	A	American South African Investment Co.	153.95	87.05	2.4	70.1	NYSE	1.08
D	A	Carriers & General Corp.	132.42	78.85	3.6	16.4	NYSE	0.72
A+	F	Central Securities	154.98	51.66	4.6	46.1	ASE	0.60
D	C	Consolidated Investment Trust	130.99	63.03	4.0	58.2	O-T-C	0.15
A	C	Dominick Fund	143.27	59.23	2.4	46.8	NYSE	0.42
D	A+	Eurofund International	80.39	90.14	1.9	30.7	NYSE	2.40
A+	C	General American Investors	187.37	64.81	2.5	82.4	NYSE	0.70
D	A	International Holdings	133.66	70.35	3.3	74.4	NYSE	0.85
C	A	Japan Fund (started 4/62)	339.19	145.09	2.5	60.9	NYSE	0.82
B	C	The Lehman Corp.	167.31	64.80	2.7	365.1	NYSE	0.30
B	D	Madison Fund	161.26	60.08	4.7	235.4	NYSE	0.52
C	B	National Aviation	177.30	68.12	6.2	86.5	NYSE	0.44
B	B	Niagara Share Corp.	175.66	71.36	2.3	77.0	NYSE	0.49
B	B	Petroleum Corp. of America	156.19	67.66	5.2	57.7	NYSE	0.30
B	A	Standard Shares	211.51	73.09	1.3	65.8	ASE	0.45
D	C	Surveyor Fund	117.50	58.54	4.8	101.2	NYSE	0.47
D	B	Tri-Continental Corp.	144.89	67.66	4.1	484.4	NYSE	0.21
C	A+	The United Corp.	155.96	98.19	6.5	125.9	NYSE	0.48
D	B	U.S. & Foreign Securities	129.18	66.08	3.7	109.8	NYSE	0.71
FUNDS FOR INVESTING ABROAD								
D	A	Boston Common Stock Fund	132.26	71.23	3.1	35.8	8.50	0.72
D	A	Canadian Fund	145.93	80.40	2.9	24.8	7.50	0.74
D	A	International Investors	127.88	82.43	2.7	2.9	8.50	1.02
—	—	Loomis-Sayles Canadian & International Fund	171.88	76.26	1.6	16.9	†	0.87
D	A	Scudder International Investments	137.93	75.42	2.1	13.0	†	0.92
D	C	Stein Roe & Farnham Capital Opportunities Fund	109.86	61.34	3.3	12.0	†	0.70
D	A+	Templeton Growth Fund	251.43	104.04	1.7	6.5	†	1.13
D	A+	Transatlantic Fund	164.63	93.62	2.1	11.8	†	0.80
D	A+	United Funds Canada-International	197.50	91.22	1.0	8.8	†	N.A.
BALANCED FUNDS (LOAD)								
D	A	American Business Shares	115.83	74.18	5.5	23.0	7.50	0.84
C	F	American Express Income Fund (formerly Commonwealth Income Fund)	110.12	64.83	6.1	109.0	8.50	0.61
B	F	American Express Investment Co. (formerly Commonwealth Investment Co.)	112.99	67.29	5.1	136.1	8.50	0.62
B	F	Anchor Income Fund (formerly Diversified Investment Fund)	108.65	62.77	5.6	115.1	8.75	0.65
A+	F	Axe-Houghton Fund A	159.62	51.06	4.1	49.9	8.00	0.89
A+	F	Axe-Houghton Fund B	116.96	56.33	6.0	198.6	8.00	0.69
B	F	Boston Foundation Fund (formerly Income Foundation Fund)	118.14	64.09	7.2	34.1	8.50	0.92
D	C	Boston Fund	95.68	69.41	4.7	206.5	8.50	0.62
B	C	Channing Funds Balanced Fund	126.39	68.73	4.4	83.4	8.50	0.66
B	B	Income Fund	141.33	70.94	6.0	60.1	8.50	0.69

†Fund no longer selling new shares; existing shares traded over-the-counter.
N.A.—Not available.

**Our London branch
is bigger than 99% of
American banks.**

**And you never even
heard of us.**

Marine Midland has a bank in London right across the street from the Bank of England. It has more than five hundred million dollars in deposits.

Our London branch can do a lot of things for our American customers. It can arrange Eurocurrency transactions. It can handle deposit accounts in sterling or

dollars or other currencies. And it can help you do business in England and all over the continent.

Marine Midland can also help you do business in France, Germany, Hong Kong, Japan, Mexico, Spain and Turkey. Because Marine Midland is in every one of those places.

And you never even heard of us. 

Marine Midland Banks. We're not famous. Just big.



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Fund Ratings

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PERFORMANCE RATINGS

DOLLAR RESULTS

In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
\$100 ENDED AS . . .								
B	C	Standard & Poor's 500 Stock Average	\$132.82	\$63.94	4.4%			
C	D	FORBES Stock Fund Average	\$146.06	\$61.34	3.3%			
		FORBES Balanced Fund Average	\$109.77	\$67.18	5.0%			
BALANCED FUNDS (LOAD)								
A	D	Composite Bond & Stock Fund	\$121.68	\$67.01	5.5%	\$10.9	8.00%	\$0.79
D	C	Eaton & Howard Balanced Fund	100.66	68.29	5.4	135.7	8.50	0.59
C	D	Eaton & Howard Income Fund	105.85	65.54	6.4	15.1	8.50	0.74
A+	F	Financial Industrial Income Fund†	178.90	60.36	5.4	83.1	8.50	0.73
D	D	Franklin Custodian Funds—Income Series Shares	97.13	65.79	8.1	3.8	8.75	0.94
C	A	Group Securities—Balanced Fund (formerly Fully Administered Fund)	114.60	77.51	5.9	16.4	8.50	0.94
D	B	Income Fund of Boston	103.01	72.57	7.4	34.4	8.75	0.85
D	B	Investors Mutual	99.75	71.24	4.9	2,278.3	8.00	0.30
D	C	Keystone Custodian Funds—K-1	99.98	68.37	7.2	92.7	8.30	0.52
B	F	Massachusetts Fund	116.13	63.43	4.4	156.9	8.75	0.57
		National Securities						
		Balanced Series	106.58	66.67	5.4	3.4	8.50	0.69
C	D	Dividend Series	141.68	63.49	6.8	79.6	8.50	0.65
A	F	Income Series	107.30	69.80	6.9	67.2	8.50	0.66
C	B							
D	A	Nation-Wide Securities Co.	112.66	74.23	5.5	67.4	7.50	0.45
A+	F	Provident Fund for Income	144.11	60.77	7.8	69.8	8.50	0.80
B	C	The George Putnam Fund of Boston	125.87	69.93	4.3	342.3	8.50	0.46
D	F	Putnam Income Fund††	91.83	64.45	7.0	115.7	8.50	0.50
D	D	Sigma Trust (formerly New England Fund)	91.97	62.04	5.4	15.0	8.50	0.73
D	C	Wellington Fund	94.94	68.60	4.8	1,151.8	8.50	0.44
B	B	Whitehall Fund	125.60	69.28	4.2	14.0	8.50	0.46
BALANCED FUNDS (NO-LOAD)								
A	D	Dodge & Cox Balanced Fund	129.19	69.20	4.5	11.7	none	0.68
C	D	Loomis-Sayles Mutual Fund	114.92	67.12	4.5	126.0	none	0.61
D	A	Northeast Investors Trust	100.34	79.14	7.5	34.9	none	0.67
C	B	Prudential Fund of Boston	104.61	70.76	3.9	2.0	none	0.75
B	F	Stein Roe & Farnham Balanced Fund	123.77	64.79	4.0	126.6	none	0.52
BONDS & PREFERRED STOCK FUNDS								
Not Rated								
		Atlantic Fund for Investment in U.S.						
		Government Securities	102.81	100.90	6.0	5.9	none	N.A.
		Investors Selective Fund	86.38	92.90	6.5	31.3	7.00	0.53
		Keystone Custodian Funds						
		B-1	72.37	88.42	7.9	9.2	4.15	0.27
		B-2	85.52	83.33	8.0	7.2	8.30	0.52
		B-4	96.71	79.34	8.7	108.0	8.30	0.52
		National Securities						
		Bond Series	93.43	75.86	6.8	3.4	8.50	0.75
		Preferred Stock Series	88.64	68.73	6.8	4.5	8.50	0.64
EXCHANGE FUNDS								
Not Rated								
		Capital Exchange Fund (started 3/66)	—	64.12	2.4	77.6	—	0.57
		Congress Street Fund	—	67.93	1.8	34.2	—	0.57
		Second Congress Street Fund (started 6/64)	—	61.64	1.5	25.3	—	0.57
		Constitution Exchange Fund (started 4/66)	—	54.39	1.6	17.4	—	0.66
		Depositors Fund of Boston (started 4/65)	—	62.87	2.3	65.7	—	0.57

†Transferred from stock section in 1970; would have ranked B, C as a stock fund.
N.A. Not available.

††Transferred from stock section in 1970; would have ranked D, B as a stock fund.

Last year, Nicky K., age three, drank a bottle of furniture polish. A telephone number saved his life.



The poisoning took place in Tyngham, Mass.

The number belonged to a poison control center 135 miles away.

But what if Nicky's parents didn't know it existed?

What if they had to waste precious minutes frantically searching through phone books before they could even attempt to reach it?

And what if they needed

something more than advice over the telephone — like a doctor or ambulance?

At Metropolitan Life, we are working to keep all those "what if's" from becoming "if only's."

In many communities, we're distributing emergency kits with lists of numbers that can make the difference between life and death.

It's part of a 44-year-long

effort on our part to show people how to avoid emergencies, and how to handle those that are unavoidable.

Because accidents will happen.

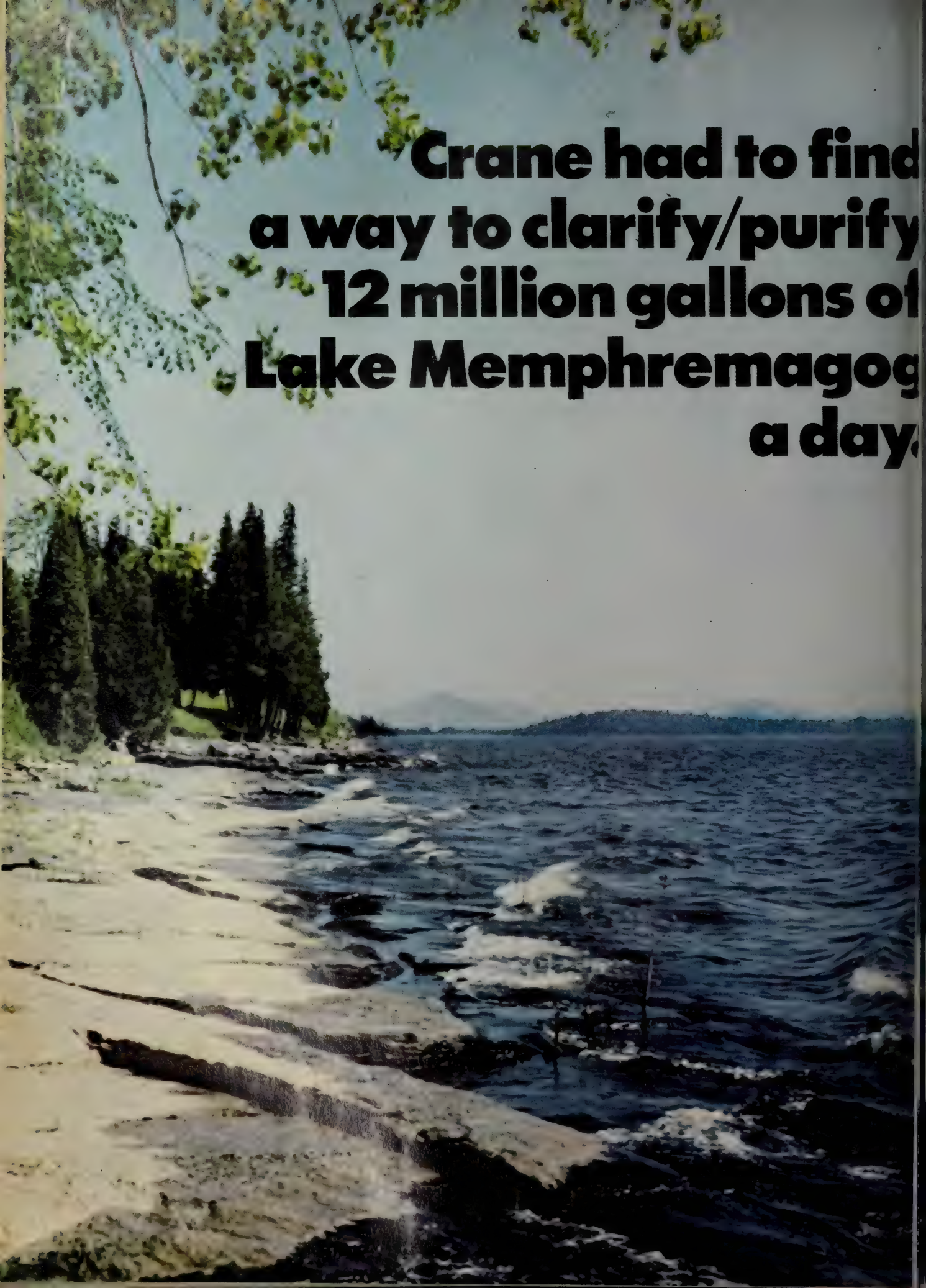
And when they do, what people don't know can hurt them.



Metropolitan Life

We sell life insurance.
But our business is life.

**Crane had to find
a way to clarify/purify
12 million gallons of
Lake Memphremagog
a day.**



The Solution:

A microstraining®/ozonation system. One of the first installations of its kind in North America.

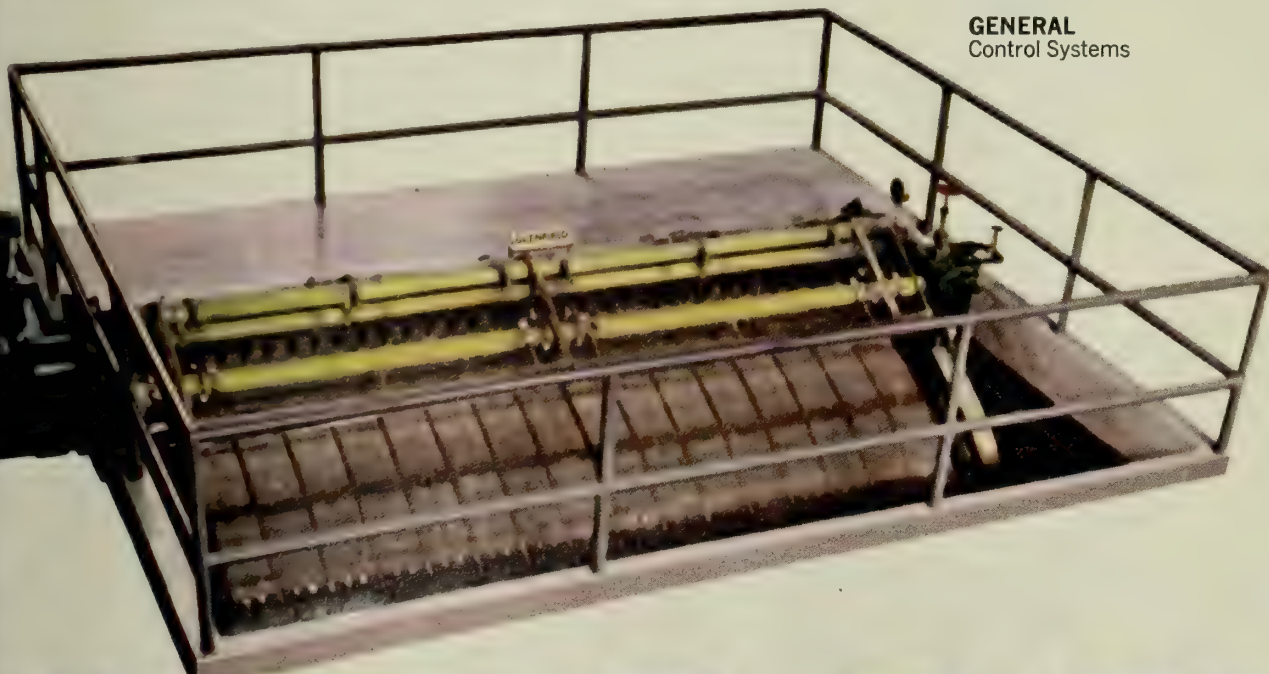
This system was engineered to provide 12 million gallons of pure water per day for Sherbrooke, Quebec's 80,000 people and hundred or so important industries. Here's how it operates:

Lake Memphremagog water is run through three Microstrainers, or rotary drum filters (each 10' x 10') covered with fine screening (to 165,000 apertures per sq. in.). Filtered out algae, tiny fish and suspended solids are back-washed away by high pressure spray nozzles.

Then, air containing ozone (O_3 produced by "activating" oxygen in the air with electricity) is bubbled through the filtered water. Leaves it safe to drink, color free, odor free, and delicious.

Crane: 100 years of experience in water treatment systems. Makers of valves, pumps, fittings, aircraft and aerospace products, plumbing and heating equipment, steel and wire products. Crane Co., 300 Park Avenue, New York, N.Y. 10022.

If it flows: **CRANE®**



CRANE CAPABILITIES IN THE ENVIRONMENTAL CONTROLS AREA

WATER SUPPLY TREATMENT

Microstraining
Softening
Clarification
Sand Filtration
In-Depth Filtration
Ion Exchange
Iron Removal
Sterilization
Degassification

INDUSTRIAL TREATMENT

Microstraining
Sand Filtration
Mixed Media Filtration
Clarification
Activated Carbon Filtration
Ion Exchange
Solids Handling Pumps
Deep Bed Filtration
Aeration
Acid Neutralization

SEWAGE TREATMENT

Microstraining
Sand Filtration
Mixed Media Filtration
Clarification
Ozonation
Activated Carbon Filtration
Ion Exchange
Solids Handling Pumps

AIR POLLUTION

Ozonation
Wet Scrubbing

THERMAL POLLUTION

Heat Exchangers

NOISE ABATEMENT

Exhaust Heads

GENERAL

Control Systems

CRANE

BAD YEAR?

You've gotta believe it.

But bad is a relative word. How high is up? How low is down?

We've been telling "up" stories about FORBES for a number of years now. And with the kind of year 1970 is shaping up to be, we have been more than apprehensive about the statistics.

The Publishers' Information Bureau has just released the competitive data on the first half of 1970, and while the results are not overwhelming, we have a lot to be grateful for when compared with the other business and news magazines.

ADVERTISING REVENUES Jan.-June, 1970 vs. Jan.-June, 1969

 Ups	FORBES	+ \$286,441
	Scientific American	+ \$88,071
	Nation's Business	+ \$47,018
	Harvard Business Review	+ \$15,568
 Downs	Business Management	- \$2,741
	Dun's Review	- \$22,915
	Business Week	- \$644,105
	Newsweek	- \$684,385
	U.S. News	- \$1,137,075
	Fortune	- \$1,607,597
	Time	- \$2,522,098

Source: Publishers' Information Bureau

How high is up? It isn't down. We thought you'd like to know that FORBES isn't down either. **Forbes: capitalist tool**

Forbes

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DOLLAR RESULTS

In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
—	—	Standard & Poor's 500 Stock Average	\$132.82	\$63.94	4.4%			
B	C	FORBES Stock Fund Average	\$146.06	\$61.34	3.3%			
Not Rated		\$100 ENDED AS...						
		EXCHANGE FUNDS						
		Devonshire Street Fund	—	\$58.64	2.7%	\$ 17.3	—%	\$0.62
		Diversification Fund	—	71.32	2.4	71.1	—	0.57
		Empire Fund	—	65.02	4.0	38.7	—	0.72
		Second Empire Fund (started 3/65)	—	61.46	3.9	10.3	—	1.08
		Third Empire Fund (started 4/66)	—	51.08	3.3	4.1	—	0.98
		Fourth Empire Fund (started 9/66)	—	68.28	3.6	17.0	—	0.86
		Fifth Empire Fund (started 3/67)	—	66.69	3.0	11.3	—	0.91
		Sixth Empire Fund (started 6/67)	—	69.96	3.4	17.7	—	0.87
		Exchange Fund of Boston (started 9/63)	—	64.93	2.3	58.0	—	0.59
		Exeter Fund (started 5/66)	—	55.84	2.1	22.2	—	0.69
		Exeter Second Fund (started 3/67)	—	50.13	1.5	21.8	—	0.67
		Exeter Third Fund (started 6/67)	—	51.72	1.4	32.1	—	0.66
		Federal Street Fund	—	66.21	2.2	130.3	—	0.53
		Second Federal Street Fund (started 5/66)	—	68.11	1.9	55.6	—	0.56
		Fiduciary Exchange Fund (started 3/67)	—	61.89	2.4	52.0	—	0.57
		Second Fiduciary Exchange Fund (started 6/67) ..	—	61.72	2.7	72.4	—	0.56
		General Exchange Fund (started 8/65)	—	50.46	3.9	7.9	—	0.96
		Industries Exchange Fund (started 6/67)	—	49.84	2.2	8.3	—	0.68
		Investors Capital Exchange	—	61.67	1.7	13.8	—	0.75
		Ohio Capital Exchange Fund	—	62.99	2.6	9.1	—	0.65
		Presidential Exchange Fund (started 8/65)	—	67.94	3.6	10.0	—	0.68
		Second Presidential Fund (started 4/66)	—	69.29	3.0	10.9	—	0.95
		Fifth Presidential Fund (started 6/67)	—	72.09	2.8	12.7	—	0.90
		Westminster Fund	—	62.93	2.2	39.7	—	0.59
Kind of Shares		DUAL PURPOSE FUNDS						
capital shares		American DualVest Fund (started 3/67)	—	24.03	none	29.8	NYSE	0.94
income shares		American DualVest Fund (started 3/67)	—	—	8.8			
capital shares		Gemini Fund (started 3/67)	—	53.60	none	37.3	NYSE	0.81
income shares		Gemini Fund (started 3/67)	—	—	8.0			
capital shares		Hemisphere Fund (started 6/67)	—	2.91	none	17.6	NYSE	0.90
income shares		Hemisphere Fund (started 6/67)	—	—	3.1			
capital shares		Income & Capital Shares (started 3/67)	—	41.70	none	26.2	NYSE	0.68
income shares		Income & Capital Shares (started 3/67)	—	—	9.6			
capital shares		Leverage Fund of Boston (started 3/67)	—	47.53	none	53.7	NYSE	0.72
income shares		Leverage Fund of Boston (started 3/67)	—	—	6.4			
capital shares		Putnam Duo Fund (started 7/67)	—	23.83	none	23.4	O-T-C	0.78
income shares		Putnam Duo Fund (started 7/67)	—	—	6.9			
capital shares		Scudder Duo-Vest Fund (started 4/67)	—	30.92	none	79.9	NYSE	0.77
income shares		Scudder Duo-Vest Fund (started 4/67)	—	—	7.3			
Type of Fund		NEW FUNDS *						
stock		Afuture Fund (started 3/68)	—	35.39	none	6.4	none	1.50
stock		All American Fund (started 2/64)	—	37.35	3.9	2.0	8.50	0.66
stock		Alpha Fund (started 5/68)	—	59.76	1.7	16.6	8.50	1.40
stock		AMCAP Fund (started 4/67)	—	63.14	2.2	62.8	8.50	0.71
stock		American Diversified Investors Fund (started 12/64)	—	65.18	3.0	2.0	8.50	1.00

*Funds which started business with assets of at least \$2 million after June 30, 1962.

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DOLLAR RESULTS

In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
\$100 ENDED AS...								
—	—	Standard & Poor's 500 Stock Average		\$63.94	4.4%			
B	C	FORBES Stock Fund Average		\$61.34	3.3%			
C	D	FORBES Balanced Fund Average		\$67.18	5.0%			
Type of Fund		NEW FUNDS*						
stock		American Express Special Fund (started 4/69) . . .	—	—	3.0%	\$52.2	none	\$0.33
stock		American Investment Counseling Fund (started 7/65)	—	\$51.16	1.3	2.7	none	1.00
stock		Anchor Capital Fund (started 5/68)	—	53.20	2.7	59.1	8.75%	0.75
stock		Astron Fund (started 6/68)	—	44.29	0.5	5.5	8.50	0.97
stock		Audax Fund (started 2/70)	—	—	none	2.0	8.50	N.A.
balanced		Balanced Income Fund (started 3/64)	—	69.01	5.9	7.6	8.75	0.54
stock		The Barclay Fund (started 9/68)	—	54.10	2.6	4.2	none	1.00
stock		Becker Fund (started 8/69)	—	—	none	2.1	8.50	1.00
stock		Berger-Kent Special Fund (started 4/69)	—	—	0.2	17.3	†	0.96
stock		Blair Fund (started 5/67)	—	39.28	none	11.5	8.50	1.10
stock		BLC Growth Fund (started 10/69)	—	—	none	3.3	8.50	1.65
stock		BLC Income Fund (started 10/69)	—	—	2.2	2.4	8.50	1.19
stock		Boston Mutual Equity Growth Fund (started 1/69)	—	—	2.3	1.9	8.50	0.93
stock		The Burnham Fund (started 12/69)	—	—	none	5.9	none	1.00
stock		Capamerica Fund (formerly Capital Income Fund) (started 2/65)	—	66.79	6.0	1.8	8.75	0.19
stock		Centurion Fund (started 12/69)	—	—	—	4.1	8.60	N.A.
stock		CG Fund (started 2/68)	—	59.12	2.0	24.9	7.50	0.91
stock		CG Income Fund (started 11/68)	—	66.09	3.9	2.7	7.50	0.98
stock		Chandler Fund (started 1/67)	—	41.57	none	2.0	8.75	1.00
stock		Chase Capital Fund (started 9/69)	—	—	—	8.2	8.50	N.A.
stock		Chase Frontier Fund (started 3/68)	—	44.13	1.4	22.5	4.25	0.74
stock		Chase Special Fund (started 7/69)	—	—	1.9	27.2	8.50	N.A.
stock		Colonial Equities Fund (started 11/66)	—	44.11	2.0	86.6	8.50	0.66
balanced		Colonial Income Fund (started 12/69)	—	—	4.4	39.8	8.50	0.62
stock		Colonial Ventures (started 2/69)	—	—	0.9	19.1	8.50	0.95
stock		Columbia Growth Fund (started 6/67)	—	63.54	0.9	16.7	none	1.52
stock		Competitive Associates Fund (started 6/69)	—	—	none	15.9	8.75	N.A.
stock		Competitive Capital Fund (started 3/68)	—	44.81	1.7	60.0	8.75	0.70
stock		Comstock Fund (started 10/68)	—	58.42	3.7	113.7	8.50	0.86
stock		Consultant's Mutual Investments (started 6/63)	—	64.58	3.8	11.6	none	0.80
stock		Contrafund (started 5/67)	—	65.54	4.1	24.1	†	0.80
stock		Country Capital Investment Fund (started 4/66)	—	60.20	0.2	17.2	7.50	0.90
stock		Delta Trend Fund (started 10/68)	—	60.79	1.0	18.7	8.50	0.90
stock		Diversified Fund of State Bond & Mtge Co. (started 6/64)	—	68.63	4.1	1.8	8.00	1.00
stock		Dodge & Cox Stock Fund (started 4/65)	—	61.44	3.4	5.8	none	0.69
stock		Drexel Hedge Fund (started 5/69)	—	—	none	2.1	none	1.00
stock		Drexel Investment Fund (started 12/68)	—	—	1.4	3.6	none	1.00
stock		Dreyfus Leverage Fund (started 6/69)	—	—	1.1	123.1	8.75	0.42
stock		Eaton & Howard Growth Fund (started 4/68)	—	61.44	2.9	34.0	8.50	0.68
stock		Eaton & Howard Special Fund (started 4/68)	—	39.69	3.4	29.8	8.50	0.71
stock		Eberstadt Fund (started 9/66)	—	63.98	2.7	27.6	8.50	0.71
stock		Edie Special Growth Fund (started 8/69)	—	—	none	5.5	none	1.00
stock		Edie Special Institutional Fund (started 8/69)	—	—	none	9.0	none	1.00
stock		Egret Growth Fund (started 9/64)	—	57.41	2.7	24.3	8.00	0.62
stock		Equity Growth Fund of America (started 8/66)	—	70.33	1.4	65.8	8.75	0.93
stock		Everest Fund (started 5/66)	—	55.03	6.6	43.0	8.50	0.80
stock		Explorer Fund (started 12/67)	—	59.45	2.0	30.1	6.00	0.81
stock		Farm Bureau Mutual Fund (started 6/65)	—	59.15	2.9	8.1	none	0.91
stock		Financial Dynamics Fund (started 9/67)	—	41.16	1.7	44.1	8.50	0.71

*Funds which started business with assets of at least \$2 million after June 30, 1962.

†Fund no longer selling shares; existing shares traded over-the-counter.

N.A.—Not available.

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Fund Ratings

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PERFORMANCE RATINGS

DOLLAR RESULTS

In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
\$100 ENDED AS...								
—	—	Standard & Poor's 500 Stock Average		\$63.94	4.4%			
B	C	FORBES Stock Fund Average		\$61.34	3.3%			
C	D	FORBES Balanced Fund Average		\$67.18	5.0%			
NEW FUNDS*								
stock		Financial Venture Fund (started 3/69)	—	—	3.9%	\$20.8	8.50%	\$0.66
stock		First Fund of Virginia (started 1/67)	—	\$57.34	2.8	10.7	8.50	0.94
stock		First Investors Discovery Fund (started 9/69)	—	—	0.5	4.6	8.75	1.00
stock		First Investors Fund for Growth (started 4/66)	—	52.30	0.4	30.1	8.75	1.00
stock		First Multifund of America (started 10/67)	—	55.80	2.8	13.5	1.50	0.88
stock		First Participating Fund (started 8-64)	—	64.45	1.5	2.8	none	1.00
stock		First Security Growth Fund (started 8/68)	—	62.48	2.0	3.5	8.50	1.00
stock		Fletcher Capital Fund (started 3/68)	—	46.63	none	69.5	†	0.86
stock		Fletcher Fund (started 11/66)	—	49.32	2.4	31.6	†	0.72
stock		FML Growth Fund (started 8/68)	—	46.82	1.9	3.0	7.50	1.90
stock		Franklin Custodian Funds—Dynatech Series (started 1/68)	—	44.20	1.1	10.6	8.75	0.99
stock		Freedom Fund (started 5/68)	—	63.30	5.6	29.2	8.75	0.99
stock		Fund for Mutual Depositors (started 8/69)	—	—	2.2	6.0	none	0.70
stock		Fundex (started 12/67)	—	33.17	none	1.6	†	1.00
stock		Gateway Fund (started 10/69)	—	—	none	3.5	7.50	1.00
stock		Gibraltar Growth Fund (started 1/68)	—	34.51	none	34.9	1.00	0.89
stock		Growth Fund of America (12/58)	—	52.28	none	10.6	8.50	4.37
stock		Hamilton Growth Fund (started 12/68)	—	—	3.1	24.0	8.50	1.00
stock		John Hancock Growth Fund (started 2/69)	—	—	0.9	12.6	8.00	1.01
stock		John Hancock Signature Fund (started 2/69)	—	—	4.2	4.6	8.00	1.01
stock		Hartwell & Campbell Fund (started 1/67)	—	37.86	none	11.5	none	2.04
stock		Hartwell & Campbell Leverage Fund (started 9/68)	—	50.87	none	21.4	none	1.10
stock		Hedge Fund of America (started 2/68)	—	49.86	none	33.7	8.75	0.71
stock		Herold Fund (started 3/68)	—	69.39	none	7.2	1.00††	2.01
stock		Hubshman Fund (started 11/66)	—	28.33	none	1.9	8.50	N.A.
stock		ICM Equity Fund (started 10/66)	—	58.45	1.3	2.6	8.75	0.80
stock		IDS New Dimensions Fund (started 8/68)	—	51.16	2.1	91.4	8.00	0.39
stock		IDS Progressive Fund (started 1/69)	—	—	0.8	104.0	8.00	0.35
stock		Impact Fund (started 8/69)	—	—	none	20.8	8.50	N.A.
stock		Imperial Growth Fund (started 4/63)	—	54.50	2.3	13.6	8.50	0.80
stock		Independence Fund (started 1/66)	—	33.36	1.3	20.7	8.75	0.79
stock		Index Fund (started 7/67)	—	61.52	2.1	2.8	8.50	1.00
stock		Industries Trend Fund (started 2/65)	—	56.69	2.5	74.6	8.50	0.81
stock		Investment Guidance Fund (started 6/68)	—	67.37	1.3	1.9	none	1.50
stock		Investment Indicators Fund (started 7/67)	—	30.23	none	7.3	none	3.10
stock		ISI Growth Fund (started 3/68)	—	49.46	2.4	25.2	8.50	0.82
stock		ISI Income Fund (started 9/68)	—	67.88	4.3	12.6	8.50	0.92
closed-end		Jaffee Fund (started 1/69)	—	—	2.8	2.6	none	2.10
stock		Josten Growth Fund (started 1/66)	—	59.35	2.0	2.3	none	0.99
stock		Keystone Apollo (started 12/69)	—	—	none	4.3	8.75	1.00
stock		Knowledge Communications Fund (started 12/66)	—	60.00	1.8	3.7	8.50	1.04
stock		Lexington Growth Fund (started 7/69)	—	—	0.8	10.0	8.50	0.70
Lincoln National Funds								
balanced		Balanced Fund (started 9/69)	—	—	1.2	2.1	8.50	0.94
stock		Capital Fund (started 9/69)	—	—	1.4	5.7	8.50	0.92
stock		Variable Annuity Fund A (started 7/67)	—	67.40	none	18.0	8.75	1.31
stock		Variable Annuity Fund B (started 4/68)	—	71.75	none	8.8	8.75	1.32
stock		Manhattan Fund (started 2/66)	—	43.03	none	149.7	8.50	0.90
stock		Market Growth Fund (started 2/66)	—	33.75	none	1.8	none	6.30
stock		Mates Investment Fund (started 7/67)	—	23.40	none	6.1	none	0.75

*Funds which started business with assets of at least \$2 million after June 30, 1962.

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††Entrance Fee. N.A. Not available.

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1970

PERFORMANCE RATINGS

DOLLAR RESULTS

In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
		\$100 ENDED AS...						
B	C	Standard & Poor's 500 Stock Average		\$63.94	4.4%			
C	D	FORBES Stock Fund Average		\$61.34	3.3%			
		FORBES Balanced Fund Average		\$67.18	5.0%			
Type of Fund		NEW FUNDS*						
stock		Mathers Fund (started 8/65)	—	\$63.03	1.3%	\$40.0	none	\$0.93
stock		Meridian Fund (started 2/67)	—	72.00	5.1	3.8	8.50%	0.75
stock		Moody's Fund (started 6/67)	—	72.19	4.2	5.0	8.50	1.00
stock		W. L. Morgan Growth Fund (started 12/68)	—	—	1.2	28.0	8.50	1.00
bond		Mutual Fund for Investing in U.S. Gov. Sec. (started 10/69)	—	—	3.6	18.8	N.A.	N.A.
stock		Mutual of Omaha Growth Fund (started 5/68)	—	61.05	3.3	12.9	8.00	0.95
balanced		Mutual of Omaha Income Fund (started 5/69)	—	72.28	5.8	3.2	8.00	1.00
stock		Naess & Thomas Special Fund (started 1/68)	—	56.19	0.5	12.8	none	0.77
stock		NEA Mutual Fund (started 12/64)	—	59.95	2.6	14.7	2.00	0.63
stock		NEL Equity Fund (started 12/68)	—	—	1.6	2.7	8.00	0.97
stock		Nel Growth Fund (started 12/68)	—	—	1.6	11.1	8.00	0.97
stock		Neuwirth Century Fund (started 4/69)	—	—	none	3.8	8.75	1.00
stock		Neuwirth Fund (started 2/67)	—	48.36	5.2	43.0	none	0.71
stock		New World Fund (started 2/63)	—	65.87	3.3	6.7	8.50	0.86
stock		New York Venture Fund (started 2/69)	—	—	none	38.8	8.67	1.05
stock		Oceanographic Fund (started 5/68)	—	49.88	3.4	12.8	none	1.00
stock		Ocean Technology Fund (started 7/68)	—	34.63	none	1.4	8.50	1.73
stock		Omega Fund (started 4/68)	—	50.15	4.1	38.1	†	0.57
stock		O'Neil Fund (started 9/66)	—	46.21	1.7	14.9	none	0.75
stock		One Hundred Fund (started 11/66)	—	60.24	2.3	48.2	8.50	0.98
stock		One Hundred & One Fund (started 12/66)	—	65.00	4.9	3.4	8.50	1.00
stock		Oppenheimer A.I.M. Fund (started 12/69)	—	—	—	19.3	8.50	N.A.
stock		Pace Fund (started 7-69)	—	—	none	8.6	8.50	N.A.
stock		Pennsylvania Mutual Fund (started 6/67)	—	26.87	none	10.3	none	3.15
stock		Pension Equity Fund (started 3/68)	—	57.93	none	4.6	none	1.39
stock		Pilgrim Fund (started 8/64)	—	57.09	0.9	10.3	8.50	0.71
stock		Pilot Fund (started 9/67)	—	53.69	2.0	33.7	8.50	0.77
stock		Pioneer II (started 9/69)	—	—	1.0	2.5	8.50	1.36
stock		Polaris Fund (started 8/68)	—	42.05	0.7	42.9	8.50	0.75
stock		Rowe Price New Era Fund (started 5/69)	—	—	2.0	62.9	none	1.00
stock		PRO Fund (started 9/67)	—	63.04	1.8	18.1	none	0.57
stock		Putnam Equities (started 9/67)	—	34.21	2.9	58.1	8.50	0.71
stock		Putnam Vista (started 6/68)	—	41.58	none	54.4	8.50	0.84
stock		Putnam Voyager (started 4/69)	—	—	none	21.4	8.50	0.54
stock		Paul Revere Courier Fund (started 8/69)	—	—	1.9	7.1	8.50	0.74
stock		Rinfret Fund (started 1/70)	—	—	1.0	7.2	N.A.	N.A.
stock		L. M. Rosenthal (started 12/68)	—	45.84	4.8	12.3	8.50	1.20
stock		Schuster Fund (started 9/67)	—	62.75	2.7	20.5	8.63	0.99
stock		Security Equity Fund (started 9/62)	—	45.02	2.9	85.8	8.50	0.74
stock		Security Ultra Fund (started 9/69)	—	—	0.2	5.1	8.50	N.A.
stock		Selected Special Shares (started 1/68)	—	57.47	0.9	80.2	8.50	0.75
stock		Sentinel Growth Fund (started 9/69)	—	—	0.5	3.3	8.00	N.A.
stock		Shamrock Fund (started 8/69)	—	—	none	2.9	none	0.36
stock		Shearson Appreciation Fund (started 3/70)	—	—	—	13.9	8.50	N.A.
stock		Shearson Capital Fund (started 6/67)	—	66.39	2.7	3.8	none	0.90
stock		Sherman, Dean Fund (started 2/68)	—	47.22	4.0	7.2	none	0.90
stock		Side Fund (started 7/68)	—	65.76	0.6	24.6	8.75	1.00
stock		Sigma Capital Shares (started 10/67)	—	46.20	1.2	24.3	8.50	1.00
stock		Smith, Barney Equity Fund (started 8/68)	—	61.04	2.6	32.4	none	0.40
stock		Southwestern Investors Growth Fund (started 5/68)	—	44.29	1.9	2.3	7.50	0.74
stock		Spectra Fund (started 7/69)	—	—	1.3	4.3	8.75	1.00
stock		State Farm Growth Fund (started 3/68)	—	62.12	2.4	15.7	none	0.85
stock		State Farm Income Fund (started 3/68)	—	79.28	7.8	2.3	none	0.85

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†Fund no longer selling shares; existing shares traded over-the-counter.

N.A. Not available.

Forbes Fund Ratings 1970

PERFORMANCE RATINGS

DOLLAR RESULTS

In UP Markets	In DOWN Markets		1962-70	Recent Market Decline	Dividend Return	Assets in Millions	Maximum Sales Charge	Annual Expenses (Cents per \$100)
—	—	Standard & Poor's 500 Stock Average		\$63.94	4.4%			
B	C	FORBES Stock Fund Average		\$61.34	3.3%			
Type of Fund		NEW FUNDS*	\$100 ENDED AS...					
stock		Nicholas Strong Fund (started 7/69)	—	—	none	\$ 4.2	none	\$0.92
stock		Supervised Investors						
stock		Growth Fund (started 4/66)	—	\$61.42	2.1%	130.9	8.75%	0.78
stock		Summit Fund (started 2/69)	—	—	1.4	32.0	8.75	1.00
stock		Syncro Growth Fund (started 2/68)	—	48.20	1.5	10.1	8.50	0.69
stock		Technivest Fund (started 12/68)	—	67.10	4.0	45.2	†	1.00
stock		TMR Appreciation Fund (started 7/69)	—	30.07	none	15.2	8.50	1.02
stock		Tower Fund (started 11/68)	—	42.42	3.0	4.4	8.50	1.19
stock		Transamerica Capital Fund (started 7/68)	—	52.90	4.1	53.8	8.00	0.87
stock		Travelers Equities Fund (started 5/68)	—	66.27	1.5	8.6	8.50	1.00
stock		Trustees' Equity (started 2/67)	—	67.42	0.4	6.5	8.50	1.00
stock		Tudor Hedge Fund (started 6/69)	—	—	2.2	21.5	8.50	1.06
stock		Unified Mutual Shares (started 10/63)	—	57.44	4.0	8.6	8.50	0.76
stock		Union Capital Fund (started 12/69)	—	—	2.9	7.6	8.50	N.A.
stock		United Vanguard (started 10/69)	—	—	0.8	15.8	8.75	N.A.
stock		Vance Sanders Special Fund (started 11/68)	—	52.04	1.8	25.9	8.50	0.48
stock		Weingarten Equity Fund (started 3/67)	—	53.67	0.6	2.6	none	2.60
stock		Clarence M. Whipple Fund (started 5/68)	—	62.78	1.1	1.2	1.50	1.04
stock		Wincap Fund (started 5/69)	—	—	none	8.0	8.50	2.20

*Funds which started business with assets of at least \$2 million after June 30, 1962.

THE FUNDS VS. THE ODD-LOT FAVORITES

You can rate individual stocks on the same basis as FORBES rates the funds. Below are comparable figures for 20 of 1969's odd-lot favorites, the stocks the so-called little fellow bought.

D	A	American Telephone & Tel.	\$ 79.52	\$75.33	6.2%
A	F	Boeing	61.34	28.42	6.4
A	F	Chrysler	173.08	31.78	7.2
B	A	Eastman Kodak	298.82	72.48	2.0
D	C	General Electric	113.44	60.72	3.9
B	B	General Motors	128.42	72.12	6.5
C	F	General Telephone & Elec.	108.81	49.72	7.0
A+	F	Gulf & Western	215.67	17.09	4.2
C	C	Gulf Oil	128.67	51.74	6.5
A+	B	IBM	283.25	72.51	1.8
A	F	Litton Industries	83.43	22.08	none
A	D	Natoma	407.54	46.37	0.9
A+	F	Occidental Petroleum	372.84	30.38	7.0
C	F	Pan American World Airways	211.86	27.97	none
C	F	RCA Corp.	163.60	41.94	4.9
D	D	Standard Oil (Calif.)	96.06	57.17	7.0
D	C	Standard Oil (N.J.)	109.50	60.62	6.9
B	D	Texaco	112.31	54.51	6.2
D	D	Union Carbide	75.49	61.78	5.9
A+	D	Xerox	927.03	73.84	0.8

†Fund no longer selling shares; existing shares sold over-the-counter.
N.A. Not available.

The Funds

(Continued from page 50)

that didn't beat the averages at all were ranked C, D or F (for flop) depending on how badly they did.

The net effect was that most funds went down a notch in the ratings. The majority of funds with an A rating in *down* markets last year have a B rating in *down* markets this year, and so forth. As a result, only 5% of the stock funds managed to get an A rating in *down* markets this year, about 40% got a B, 25% a C, 10% a D and 20% an F.

More conservative balanced funds were measured with a similar rating system. On balance they fared somewhat better: Some 10% of balanced funds got an A rating in *down* markets this year.

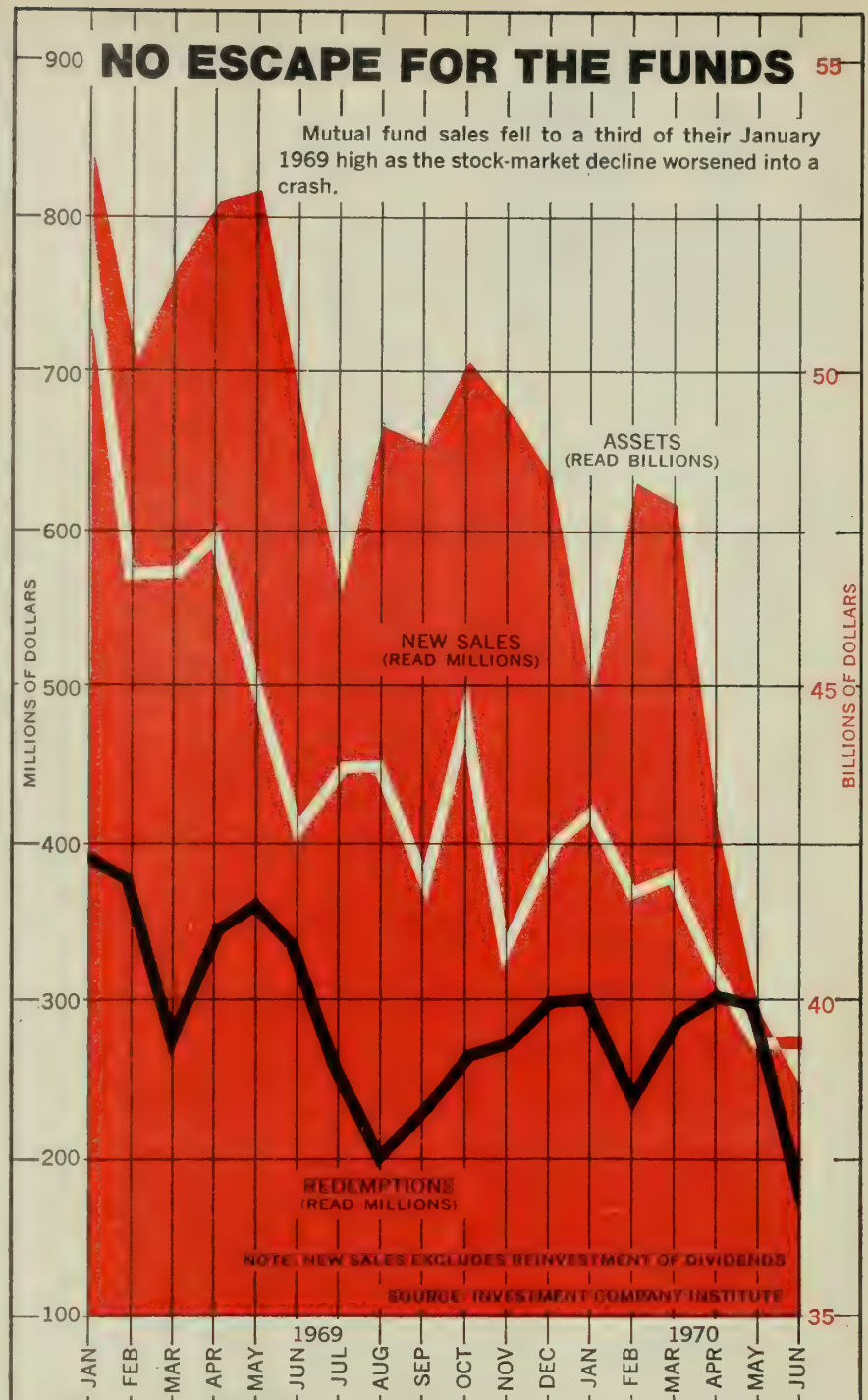
All this is, admittedly, more than a little complicated. Ours is a more sophisticated rating system than others, because it measures *consistency* of performance, not just straight-line performance. But it's not essential to follow our necessarily complicated statistical reasoning. We arrive at our ratings through a complex statistical process, but the ratings themselves are as simple as a child's report card. When we rate a fund A we think it is way above average in the quality of its management. Especially so if it ranks high on both scores—say A in *up* markets, B in *down*. If it ranks C, D or F, we say the fund in question isn't doing a very good job for its stockholders.

Even the Cautious Got Hurt

THE CHIEF appeal of income funds and balanced funds is that they are supposed to be "defensive." Dedicated above all to preserving capital and producing above-average yield, their portfolios are full of high-grade bonds, preferred stock and blue-chip common stocks. They tend to perform sluggishly in bull markets, which reward higher-risk investments with superior growth. They tend to hold up fairly well in bear markets.

Did that philosophy finally pay off over the past 18 months? Most portfolio managers of defensive funds think it did.

"I think the income and balanced funds have defended quite well over the past 18 months," says William Altschuler, who manages the \$65-million Channing Income



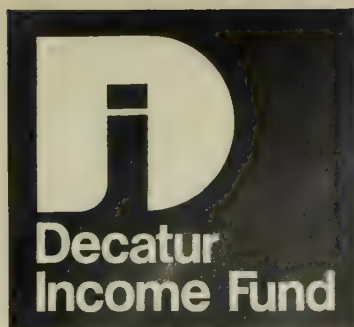
Fund—which is off just 8.8% in the first half of 1970. "Look at the income funds as a group," Altschuler goes on. "They're down just 10.7% since the start of 1968. That's not bad. I bet you would have lost as much through inflation in savings during the same period."

Frank Parish is portfolio manager of Boston's \$784-million Puritan Fund, which has managed to hold its decline in the first half of 1970 to 12.9%; this puts it up among the top 60 funds in performance. Parish agrees with Alt-

schuler. "This is the year the defensive funds shine, I guess," he says. "We don't get many of them! You'll find mostly defensive income and bond funds in the top 50 or 60 in performance this year."

Investors seem to agree. Sales are up this year for many conservative funds. And managers of defensive funds predict that the average investor will increasingly send his capital their way.

"Income funds are having a comeback right now," says Altschuler, "and that's going to con-



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The Funds

tinue a lot longer after this crash than it did in 1962 or 1966. And the go-go guy may be panicking right now and thinking that he has only one place to go and that's to the quality stocks. So we either sell it to him or hold it. Either way it's got to move us up."

Says Parish: "There's been a big shift already, and I think it will continue at least until the latter half of next year."

Privately, however, many conservative fund managers admit they're far from content with their record in the crash.

Take the Puritan Fund, for example. For the full year 1969 Puritan's assets were off 15.4%. Income funds as a group were off 14.6%. The average growth fund, in contrast, was off 15.7%. What kind of defense is that?

"No, we didn't do very well in 1969," concedes Parish. "In 1969 there was a disaster in the bond market and a disaster in income stocks in general. Nothing we could own for income was defensive except maybe commercial paper or Treasury bills. I suppose we could have gotten 60% or 70% in cash equivalent. But we just didn't have the courage."

Says another fundman: "You could have been in some pretty conservative, good-sized balanced funds and be down 25%, 26% even 28% over the past 12 months—about the same as some of the larger growth funds. Now a balanced fund down 25% has done a poorer job, given its objectives, than a growth fund down 35%. There's no way for the balanced fund to catch up in an upswing."

The blame, according to the portfolio manager of another large defensive fund, rests with the excesses of the more aggressive funds—excesses that backfired on the whole market. Says he: "I would say, personally, that funds in general have had a very poor performance in the last year. They forgot they were preservers of capital first, last and always in 1968. They didn't remember it again until the middle of 1970, and by then it was a little late. They did a terrible job of preserving capital."

No, investing—even trained professional, conservative investing—is not foolproof. Fundmen, by and large, are conscientious, capable men. They are not miracle workers.

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The Buyers Weren't There

WHAT HAPPENED to the proud boast that mutual funds would help stem any major bear market? That, being levelheaded, long-range investors, they would step in and buy when others were selling in panic? That, with their steady inflow of funds, they would have the cash to pick up bargains?

Most of these boasts evaporated this time. The funds, by and large, did *not* support the market. A main reason they did not was that their own sources of money dried up as the market crash picked up speed.

Month by month (see chart, p. 69), the sales of new funds declined. Happily, redemptions of existing shares did not increase. But new sales dropped to the point where they barely covered redemptions. Thus, *on balance*, the funds, cash flow dried up. In many, many individual cases, especially among the onetime go-go funds, redemptions got way ahead of new sales. These funds had to sell stock into a declining market to raise cash. They worsened the decline rather than stemming it.

For the go-go funds the pinch was particularly bad because they were heavily oriented toward letter stock and the stocks of hot little companies. Neither was salable in a panic, and so the choice was painful: Sell your good stock to raise money; or risk breaking thin markets to sell your more speculative holdings. Says one growth fund manager: "We tried to get out of a fair-sized, over-the-counter stock at \$15. We got off 1,000 shares at \$13 and then they found out who was doing the selling. Before we knew it the stock was at \$5. As soon as the traders smelled a big sale order, you were dead." That's what happened to many funds in Four Seasons Nursing Centers of America, the now bankrupt hot stock. Almost until the end, funds were buying Four Seasons. When the bad news broke, there was no time to get out and nobody to sell to. The funds were stuck. (By contrast, funds that were caught with big holdings of Penn Central had ample time to sell as the bad news slowly unfolded and had a broad, liquid market to sell into.)

And so thus ends, it is to be hoped, the go-go era in the mutual fund business. ■

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JULY	138.2
AUG.	137.5
SEPT.	137.1
OCT.	137.2
NOV.	136.3
DEC.	134.5
JAN.	132.4
FEB.	130.9
MAR.	129.0
APR.	127.8
MAY	125.8
JUNE	124.0
JULY (prel.)	123.0

Composed of the following:

Production

- How much are we producing? (Federal Reserve Board Index of Industrial Production)
- What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders of durable goods related to inventories)
- How intensively are we building? (Dept. of

Commerce private nonfarm housing starts) Consumption

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

- Income
- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



The Big Market—30 Million Stockholders

YOU HAVE HEARD, I'm sure, how institutions soon will own all the stocks, and that it is not worthwhile for the broker to go after the dwindling individual stockholder's business. Well, that's not what facts suggest. During the past five years, according to the New York Stock Exchange census of all stockholders, the number of individuals owning common stocks increased from 20.12 million to 30.85 million and the percentage of stocks owned by individuals increased from 68.9% in 1965 to 70.2% in early 1970. Institutions and nonindividuals in the same five years saw their percentage of all stocks owned actually decline from 28.6% to 28.2%.

It is true that the percentage of total transactions on the American Stock Exchange and the NYSE put through by institutions recently has been larger than the percentage of total transactions handled by individuals. The NYSE figures that institutions accounted for 55.4% of the number of shares traded and 61.6% of the total dollar turnover in the first half of 1969. Of late, the percentage of business done by institutions may

have been a little larger than that. It is impossible to escape the conclusion that the institutions, especially some of the so-called performance funds, have been churning their stocks faster than individuals.

I don't want to make assertions that I cannot prove; but it is my observation that most individual portfolios (excluding the more venturesome ones) have done better during the past 18 or 20 difficult months than the portfolios of the performance cult of mutual funds. On the other hand, I know of some bank portfolios which have done even better than the lists of individuals. Generally speaking, portfolios of performance mutual funds have been turned over much faster than portfolios of the more conservative funds—and the latter have done better.

They Try Too Hard

There's no need to force the point too far. There always can be exceptions to every generalization; and readers know that I am prejudiced. I don't expect the so-called performance funds to do as well as the stock market over the next year or two. The conservative funds, on balance, prob-

ably will do about as well as the DJI.

One reason why the performance funds won't do so well is that they will try too hard, and that they will be managed, in most cases, by people who must "do or die." In the stock market, you seldom make money when you must. You do best when you are relaxed. Why? I don't know. I only know it is true.

For some months, of course, performance mutual fund activity has been abnormal. This is explained partly by new managements replacing old ones, and partly by realization that the funds must do better or lose their shareholders through liquidations.

But just look at how much bigger the potential "individual" market for stocks is than the present nonindividual market. It is high time that leading stock exchange houses take note of where the business is. To a considerable extent, many houses have been indifferent about 70% of their potential market while concentrating on exploiting 30% of it.

From the intraday lows of May to the intraday highs of mid-July, the DJI advanced 115.90 points, or about 15%. This rise represents the correction of a badly oversold condition, and relief from panic, rather than any big change in the trade and earnings outlook. The big change, it would seem, is in the money situation. The Administration and the Federal Reserve no longer are tightening money and making it more expensive. Bond prices have firmed and short-term money rates have eased.

I have always marvelled that so many investors want to buy stocks

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when all is rosy, and to sell them when all is bleak. It makes more sense, it seems to me, to buy discouragement and bad news, and to sell good news and glowing optimism.

Consider the Airlines

Right now perhaps the most depressed and most liquidated industry group of equities is found in the airlines. You can buy 100 shares each of ten leading air transport companies for about \$15,500. In early April the same stocks would have cost about \$25,000, and at the top of the 1966-68 boom in the group they would have cost about \$78,500.

The industry is troubled by airport congestion, rising costs, inadequate fares, a high labor load, large debts and lower seat occupancy (due partly to the delivery of larger planes). It earned about \$55 million after interest last year. It may not earn anything this year. On the surface, there's every reason to sell the airlines, and little reason to buy them. That's a pretty good reason to give them a serious look as purchase candidates.

Don't overlook the huge cash flow of the air transport industry because of high depreciation on planes. Last year American Airlines charged off \$94.7 million for obsolescence and depreciation, Braniff \$27.5 million, Continental \$34 million, Eastern \$77.5 million, KLM \$28.4 million, Delta \$56.8 million, National \$26.1 million, Pan American \$106.2 million, TWA \$96.4 million and UAL, Inc. \$142.1 million. Pan American officially estimates cash flow in 1970 from all sources at between \$175 million and \$200 million. These large cash-flow items make it much easier to service debts; and the large debts establish high leverage in airlines shares.

I regard *Delta Airlines* (27) as one of the best. It has a comparatively small debt (the total is about four times last year's depreciation), a splendid route structure, an impressive record and a good management. With other airlines complaining, Delta recently reported increased earnings and ordered a higher dividend. It is understood that *Pan American* (9) is doing much better and the management is optimistic.

McCulloch Oil (24) now has four land development projects: Lake Havasu, Pueblo West, Fountain Hills, and a new one in the Ozarks. The management of *Federal National Mortgage* (36 after the 4-for-1 stock split) thinks that the earnings outlook of the company has taken a definite turn for the better. This stock is my high-leverage favorite. The trend toward lower short-term interest rates is a boon to Fanny Mae. ■

STOCK ANALYSIS

By Heinz H. Biel



Calamity Averted

A FEW MONTHS ago we faced the danger that the American economy might be thrown into a tailspin. This would have been largely the result of policies intended to cool it off and to slow down the pace of inflation which threatened to get out of hand. By April we had reached a point where credit had become not only frightfully expensive but also all but unavailable except for prime borrowers; and credit, after all, is the life blood of a free enterprise system. Fortunately, the highly restrictive monetary policy was reversed before it had caused irreparable damage.

If, as it now seems, a serious calamity was averted, one should not attribute this feat exclusively to the skill and wisdom of the money managers in Washington. It was the American consumer who kept his cool. In spite of huge investment losses, which may have amounted to as much as one-third of this year's gross national product, and in spite of increasing unemployment, consumer spending not only was well maintained but reached new records during the first half of 1970. In addition to keeping up his spending, the consumer also used his increased income (resulting from higher wage rates, larger social security benefits, lower taxes, etc.) to save more than ever, apparently motivated by temptingly high interest rates.

The calmness of the consumer in the face of threatening clouds on the economic horizon has been characteristic of all post-World War II recessions. The explanation is simple: An ever smaller percentage of the working (and money-earning and spending) population remembers the agonies of the Thirties. For the majority, however, it is a history-book event, and as they cannot imagine that it could ever happen again, they are not afraid of it—and they act accordingly.

A Slow Upturn

Business statistics, so far, give no indication of a turnaround. We will have to expect some further slippage in production and an increase in unemployment. But the so-called leading indicators, while still negative, do not suggest a deterioration of major proportions.

Mr. Biel is a partner in the New York Stock Exchange firm of Emanuel, Deetjen & Co.

In fact, the economy may be bottoming out in this quarter and turn up gradually towards the end of the year, unless a long automobile strike interferes. I doubt that it will be necessary for the Administration to do any pump priming. The consumer, obviously, needs no stimulation. While residential construction remains in a slump, the growth in savings will increase the supply of money available for mortgages. Meanwhile, the builders of mobile homes are filling the gap to provide shelter.

Inflation, a word and a problem of which everyone is utterly sick and tired by now, has not been licked. No realist believes in miracles. The rate of inflation, however, appears to be diminishing. If this should be confirmed statistically in the months ahead, Wall Street would welcome this as much as it is hoping for an end of the Vietnam conflict and a defusing of the Near East time bomb.

Needed: Improved Profitability

The stock market has regained its equilibrium. We have had a normal summer rally and, while a probing of the May lows is still possible, I don't expect a resumption of large scale liquidation and indiscriminate selling. Yet we must ask ourselves, why should the market be bought at this juncture? What will make it go up?

Reports that second-quarter profits were down only about 7%-8% are statistically correct, but nevertheless misleading. The relative earnings stability of a number of corporate giants tends to balance the extremely severe earnings declines suffered by the more cyclical companies, like the steels, for instance. How soon can we hopefully expect to see an improved profitability of such companies? I would consider this a pre-condition for a sustained and broad market recovery.

The transition from the spending habits during periods of affluence to the frugality required in leaner years cannot be accomplished overnight, but belt-tightening is in progress in all well-run businesses whose profit margins are suffering. The results should become apparent before long, and when the general economy also turns up, the improvement will be cumulative. The market may anticipate the

change for the better rather than wait until all the evidence has come in.

The Troubled Airlines

Hardly any other major growth industry has caused more grief for the investor than air transport. All the adversities one can think of are compounded for the airlines industry: It is a regulated industry; it is highly competitive; it is labor intensive; it suffers from airport congestion causing costly delays; it had to make huge capital investments in new airplanes before its present equipment had been fully depreciated. This year, partly as a result of the business slowdown and partly because of the introduction of the 747s, available seats increased faster than the number of passengers. This lowered the load factor at a time when operating costs continued to rise. How's that for a bag of troubles?

No wonder airline stocks have taken an awful beating. No wonder people are concerned over the solvency of some of them. However, while an individual *company* may be expendable, the air transport *industry* is not. Its viability is absolutely vital. It is the Civil Aeronautics Board's responsibility to make sure of that.

While prices of everything have spiraled, air fares have not. Relatively speaking, they are bargains. In order to save the nation's air transport industry, an increase in fares will become unavoidable. In certain instances the CAB will have to allow mergers to permit the more economic use of facilities and equipment and to eliminate inequities of present routes.

With the exception of *Delta Air Lines* and, perhaps, *Northwest Airlines*, airline stocks can no longer be classified as "investments." Now we should look at them as speculations, and as such they begin to have appeal. The expected rate relief would make the strong airlines distinctly prosperous while helping the big transcontinental trunklines—*American*, *TWA* and *United*—get back into the black. Of course, this is a *speculative* assumption, but is it unrealistic? Also, is it imaginable that we would permit *Pan Am*, the major international U.S. flag carrier, to go the way of *Penn Central*? There are ways to help *Pan Am* without the payment of subsidies, either by allowing it to merge or by allowing it to fly within the U.S.

Finally, by next year the increase in passenger miles should be greater than the increase in available seat miles, thus improving the load factor which is crucial for this industry. Once profitability of this industry has been restored, the problem of paying for the new 747s and the airbuses will be easier to solve. ■



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TECHNICIAN'S PERSPECTIVE

By John W. Schulz



Base-Building Symptoms

IT CAN'T be much longer than 30 years ago that somebody first noticed how ladies' hemlines had a way of following stock prices up and down. The correlation could scarcely have been observed before the bull/bear cycle of the Twenties and Thirties was complete; at any rate, it has manifested itself very obviously again during the past few years. The rationale presumably is that a big bull market encourages extravagance, whereas a severe bear market promotes more modest living styles. Whether skirt fashions can reliably foreshadow stock-price trends is another matter. To be sure, by 1968 hemlines could scarcely have gone much higher. But now that they have started to come down, I'm unwilling to assume that stock prices won't hit bottom until skirts, too, are all the way down to the floor. Nor, as regards stock prices, would I want to go along with the two ancient gentlemen who, in a magazine cartoon some months ago, bemoaned the drop in hemlines because "they will not go up again in our time." On the contrary, if stock trends do lead fashion trends, the ladies may have been right in not going all out for midis and in holding on to a good supply of minis.

For there is increasing evidence that the broad trend of the overall stock-price movement has stabilized and that its short-term fluctuations over the past 2½ months have (as expected here) been tracing out the sort of major base structure wherein a bear market can be arrested and reversed. Only a month ago, I found it necessary to write: "... no big build-up of latent technical strength is as yet visible in most of the areas where it should appear as a new major base unfolds." At that time, for example, a conclusively successful test of the market's May panic lows still could not be recognized. Nor were there more than tentative indications of technically constructive trends among short sellers and on the mutual-fund sector. Decisive though they probably were, the only tangibly encouraging "signals" then available had come from the Federal Reserve—a marked revival of money growth since early in the year, a cut in margin requirements last May

that substantially replenished speculators' potential buying power, and some dramatic rescue actions that kept the money market from going over the crisis brink.

Since then, however, it has become indisputable that the May lows were tested successfully last month. The Dow held some 6% above its May bottom, but broader-based indices like the New York Stock Exchange all-common stock composite, fell to within about 3% of their panic lows before staging sizable recoveries. At the same time, an unweighted comprehensive price index broke its May low by less than 3%, while the number of NYSE stock issues posting new 1970 lows was much smaller than it had been when the panic was at its worst. In these and other respects (FORBES, Aug. 1) the test was both satisfactory and thorough.

Short Signal

Since then, too, it has become clear that the rate of short selling by odd-lot traders shifted to relatively high levels which often were associated with prolonged periods of base development after sharp price collapses. Similarly, round-lot traders' short sales on the NYSE averaged nearly 2 million shares weekly—an extraordinarily high volume—during the first six weeks following the May panic. As a result, the large May-June bulge in the NYSE short interest was preserved, and because trading activity subsided during the reporting period, the short-interest ratio (to average daily share turnover) rose from 1.36 for June to 1.97 for July. Historically, a short-interest ratio near 2.00 has almost always had technically constructive implications, in the sense that it reflects an unusually high volume of potential demand from speculators who eventually must buy stocks to undo ("cover") their short positions. Even so, July's high short-interest ratio was probably somewhat less encouraging than it might seem because it stemmed much more from a drop in average trading volume than from a rise in the over-all short position. Nonetheless, it was one of the technical symptoms one traditionally looks for when a bear market presumably is being reversed.

Perhaps more significant, but no less

Mr. Schulz is a partner in the New York Stock Exchange firm of Abraham & Co.

symptomatic of the base-building process, were indications that surplus buying power in the hands of the mutual funds had mounted to massive proportions. At the end of June, the funds' collective cash reserves stood at a record-high 11.4% of their total net assets, while the redemption rate of fund shares was computed at 7.3% of average net assets by the Investment Company Institute. If defined as the excess of the cash ratio over the redemption ratio, their aggregate sidelined buying-power potential was equal to some \$1.6 billion, about double the end-May total and, by past standards, easily high enough to prompt the funds to buy common stocks on balance at least during future periods of price weakness. Preliminary indications are that the funds were net sellers in May, when the market was collapsing, and again in June, when many feared that the collapse might resume. Having narrowly escaped an excess of redemptions over sales of new fund shares in May, the funds can probably be expected for some time still to be pretty timid about adding to their common stock holdings and to continue hoarding large chunks of their new-cash inflow. If so, their excess buying power could, before too long, reach dimensions that might set the stage for an institutional buying stampede.

Underpinning

In all, accordingly, base-building symptoms have been appearing in a reasonably gratifying manner, pretty much as this column thought they should. Indeed, under more normal conditions, they might already be convincing enough to presage an imminent completion of the new base structure and the resulting emergence of a sustained major uptrend. As matters stand, however, still more base development and further intensification of the related technical characteristics may have to materialize—mostly, I suspect, in the lower 700s and perhaps also in the upper 600s of the Dow. One reason for thinking so is that investors probably need a good deal more time to recover from the paralyzing shock of the May panic and from the damage done by the deepest bear market in over a generation, particularly in face of a threatened post-Labor Day automobile strike, that could retard a general bottoming-out of the economy and of the downtrend in corporate profits. For the stock market itself, however, an auto strike need not be disastrous, inasmuch as the resulting business slack could serve to ease money-market pressures and so hold down interest rates. ■



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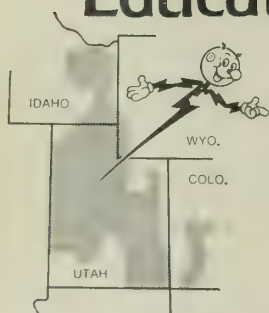
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July 23, 1970.

RAMSEY E. JOSLIN, Vice President
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THE MARKET OUTLOOK

By Sidney B. Lurie



More Credits Than Debits

AS I VIEW IT, the question facing to-day's security buyer goes deeper than an attempt to set a precise time for the start of the next major bull market. There are at least two barriers to a new all-inclusive upswing reminiscent of the automatic rebounds of the Sixties. One is the prospect that the economy may have entered a new and slower period of overall growth; the other is the lack of a strong national sense of forward momentum. Thus, the really important question is whether the tide has run out on the unusual convergence of unpleasantness that marked the first half of 1970. I think it has.

Illustrative of the point, I believe the two-month-old upturn in the bond market could have far-reaching constructive implications in that: 1) It spells a lessening of inflationary expectations and reflects a decline in world commodity prices that will later slow the cost-of-living uptrend. 2) It supports my belief that the widely publicized liquidity squeeze can be more an isolated than a wholesale condition—that it will not lead to an accumulation of financial difficulties. In other words, I doubt that the temporarily stalled bond market rally would have occurred if the economy had truly "run out of money." And an upturn in bond prices is a historical requisite for a lasting upturn in stock prices.

In a somewhat similar vein of thought, I believe the arguments for expecting a modest upturn in business to start in coming months are still valid. And even modest improvement could be significant to a stock market that has declined so sharply—particularly when the physical volume of business holds the key to solution of many of today's problems, whether it be the decline in corporate earnings (which now may be bottoming) or the liquidity pinch (which on long view has some self-correcting aspects).

My hope for what might be characterized as neither a boom nor a bust economy, but one with an upward bias, rests on three considerations: 1) As is indicated by higher July automobile production than a year ago and a relatively satisfactory level of retail sales, 1971-model-year volume

should better this year's pace. 2) With consumer savings high—income being boosted by lower tax rates—fourth-quarter buying intentions up, it's interesting to note that an upturn in consumer demand often led past recession recoveries. 3) Not only will the coming downtrend in industry's capital spending later increase the availability of mortgage money, but there already are signs that the residential building cycles have turned for the better.

Apropos of the foregoing, I have a strong suspicion that the residential building stocks will be the next "vogue group." For one thing, the housing industry's classical pattern is that of declining before the general economy peaks, and then turning up before the general trough is reached. Second, various money and credit statistics indicate that the mortgage market will ease in coming months, and already has in some parts of the country. Third, my checks indicate that the annual rate of housing starts this coming winter could be roughly at a 1.7-million annual rate against about 1.2 million in May and 1.3 million in June. Whatever the rate proves to be, it won't mean much for 1970 earnings. But it could set the stage for a very satisfactory 1971, and this is what serious security buyers will think about now.

Good Prospects

To put it a little differently, the beneath-the-surface evidence supports my first observation. For example, there has been an encouraging flow of savings into the savings and loan associations, and the improvement in the bond market should be the forerunner of lower-cost mortgage money. While there are some negatives as well—such as the fact that a larger number of families have been priced out of the market—it nevertheless seems to me that the residential building industry has better-than-average prospects for 1971 and later. My particular favorites are such stocks as *American Standard*, *First Charter*, *Johns-Manville*, etc.

In addition, I think it significant to note that a number of companies will do surprisingly well this year, notwithstanding a decline in aggregate

Mr. Lurie is a partner in the New York Stock Exchange firm of Josephthal & Co.



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R. D. BARNHART,
Treasurer.

New York, N. Y.
July 29, 1970

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NATURAL GAS
COMPANY**

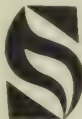
Birmingham, Alabama

Common Stock Dividend No. 126

A regular quarterly dividend of 35 cents per share has been declared on the Common Stock of Southern Natural Gas Company, payable September 14, 1970 to stockholders of record at the close of business on August 31, 1970.

PETER G. SMITH
Vice President and Secretary

Dated: July 31, 1970



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More than 822,000 owners of Standard Oil Company (New Jersey) will share in the earnings of the Company by a dividend of 90¢ per share declared July 29, 1970 and payable September 10, 1970 to shareholders of record August 12, 1970.

1970 is the 88th consecutive year in which cash dividends have been paid.

Standard Oil Company
(New Jersey)



corporate earnings. Some even have the potential of special forces "outside" of the business cycle that could make for a fairly dramatic 1971.

For example, although 1970 is what might be termed a transition year in the backbone businesses of *Cooper Industries* (now selling around 26, paying \$1.40), this generalization can obscure three significant considerations: 1) Sales nevertheless may reach a record \$200 million and profits rebound to the \$3-per-share level from last year's \$2.47 per share. This because of continued growth in the company's hardware and tools divisions, which contributed 29% of last year's sales, 41% of before-tax earnings. 2) Although demand for compressors, pumps and engines has been below earlier peaks, this has been partly offset by a growing parts-and-services business that now is larger than actual product sales to the gas transmission and oil and gas production areas. 3) The probability that we are on the threshold of a major boom in natural gas transmission line construction points up the fact that the company is by far the leading manufacturer of gas compressors.

A Matter of Time

Similarly, I think it an oversimplification to dismiss the prospect that *Williams Bros.* (around 26) this year may duplicate 1969's fully diluted earnings of \$2.80 per share on the grounds that they reflect a nonrecurring factor. True, the company's investment income will just about double this year and this increase compensates declines in operating areas. But the bulk of operating profits comes from the company's pipeline business, whose profits should reach a new record in 1970, and which is expected to grow at a better-than-10% annual rate. Moreover, with the pipeline construction backlog now building up, a sharp profits recovery is likely in this division in 1971 and 1972. There are more large construction projects on the horizon than in the industry's history.

In a sense, time might be the market's greatest problem. For example, it will take perhaps two months before all the evidence is in with respect to the scope of the fall business upturn—a prospect whose vulnerability lies chiefly in its popularity. But time also can be one of the market's hidden strengths in that the longer today's worst fears aren't realized, the less likely they are to become reality. This in itself can encourage individual issue demand in that no one waits indefinitely for the other shoe to drop when the going price level is in tune with current realities. And I think it is. ■

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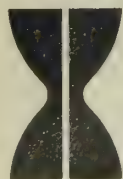


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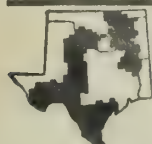
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COMMON STOCK DIVIDEND

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LEROY J. SCHEUERMAN
Secretary and Treasurer

CENTRAL AND SOUTH WEST
CORPORATION
Wilmington, Delaware

STOCK TRENDS

By Myron Simons



Strategies For A Comeback

IF THE STOCK MARKET has really begun its road to recovery—and I think that it has—what kind of a pattern can we expect? Let's look at what happened after the bear markets of 1962 and 1966. From July 31, 1962 (not quite the low, but close to it) to Feb. 1, 1963, the Dow Jones industrial average went from 591 to almost 683, an advance of over 90 points. In the next six months the average advanced slightly to 695. Only then did it begin its long upward sweep to almost 1000 in late 1965. In the 1966 bear market the Dow in October stood at 758, only about 20 points above the low. In the next six months it rose a little over 100 points to 860. Then, three months passed with hardly any change before a strong advance was resumed. In both cases, the first six to eight months of the recovery went pretty fast, and then a lull set in.

But 1962's recovery stocks were not 1967's. In 1962-63, the automotive and chemical portions of the Dow rose dramatically, but in 1966-67 they advanced only moderately. The heroes of 1966-67 were the metals, which were relatively quiet in the 1962 advance. IBM and Xerox, not in the Dow, moved sharply in 1966-67, but not in 1962-63.

What can we expect this time? How can you take advantage of the coming recovery? There are two problems to face. First, at the early stages of a recovery it's hard to be sure that it's real and, therefore, hard to be courageous. Second, after a long bear market most of us have stocks that are down drastically, and it's not easy to find enough cash to make substantial new investments. The first problem is psychological. The second one is a matter of dollars and cents.

Assuming you can overcome the psychological problem, what do you do for money? Obviously, it's important to replan investment strategy. Don't hold stocks just because they're selling at a fraction of their once-upon-a-time price. That could be the worst reason. Make sure that every stock you own represents your best thinking about the stock market you expect for the next six months or year.

But don't dump stocks that are way down if their prospects are still good. If a complete change in portfolio is too hard to face—or, if you're not sure you trust the market as yet—look at a couple of alternate strategies.

First, there are convertible bonds. A number sell to yield 7% or more. Not as good a return as you can get from a nonconvertible bond, but much better than that of most common stocks. And they are exchangeable, at the holder's option, into shares of common stock. True, in most cases the stocks have to go up a fair amount before it's worthwhile to convert into common stock. But the bonds give the extra safety of a prior position and a high yield, as well as a possible play on the common stock.

Risky but Interesting

A second alternative is to buy calls on stocks that you feel can participate fully in an advancing market. A call is an option to buy 100 shares of a stock sometime in the future at a prearranged price—generally the market price when you first buy the option. It can be exercised at any time during its life, and the price is reduced by dividends or rights that have been paid while you own it. I think that six-month calls are the best ones to consider right now because that gives enough elbowroom for the market to get going in its potential recovery. The premium paid for a call is not fixed; it varies with the volatility and popularity of the stock. As a rule of thumb, figure that six-month calls cost 15%-17% of the value of the stock; the cost is higher for very volatile stocks and lower for blue chips.

Let's face it: Calls are risky. The big disadvantage is that they can expire before the stock moves up, and you can lose the entire premium. Calls are speculative, but they do have advantages. For example, it's sometimes better to take a loss than to sit with a stock that goes down, down, down. Options can be an interesting tool for a part, a small part, of your stock-market money.

Calls have two great advantages. First, you can't lose more than the premiums you've paid. And if the stock doesn't go up enough for you to make a profit, you don't have to ex-

Mr. Simons is a partner with the NYSE firm of F.I. duPont, Glorie Forgan & Co.

ercise your option. Second, you can get a lot of mileage for your money. If you've paid 15% for a call on a stock which goes up 30%, you've doubled your money (minus commissions).

Before playing with calls, make sure you understand the risks. The best way to use them is for rounding out your portfolio. For example, to add a commitment without disturbing the rest of your portfolio; or to speculate on an advance in the market without committing your cash reserves. In buying calls remember this: You can very easily lose every cent you put into them; don't put more than a small fraction of your available capital into calls. And don't buy them unless you are convinced that the stock is pretty certain to move fairly fast.

Don't feel that just because calls don't require as large an investment as a purchase of the stock, that you should buy them by the dozen.

One of the interesting things about options is that they cause you to pinpoint your objectives. You know in advance how much you are risking. Can the stock go up enough in the next six months to make you a good enough profit to justify the risk? Once you consider the risk vs. the reward, it becomes apparent that it's not only the "highfliers" that you can benefit from. If you pay 12% for a call on a stock that goes up 24%, your percentage is just as good as if you have a more volatile stock that goes up 34%, if you've had to pay 17% for the call.

Stocks with a Future

Let's come back to the stocks that I think will do well. Remember, that I'm looking for a market of anticipation. I think that the economy that emerges from the present recession will put particular stress on meeting the social needs of our population—particularly in the areas of housing, pollution-control and health products. In the housing group, I like *Evans Products* (35), *Sherwin-Williams* (34), *Masonite* (37), and *Wickes* (28). The pollution-control business will be shared by many companies, but those already in the field should certainly benefit. Among those that seem attractive are *Joy Manufacturing* (41), *Research-Cottrell* (26) and *General Signal* (45). *Pfizer* (29), *Richardson-Merrell* (50) and *Becton-Dickinson* (32) should benefit from any heavy expenditures in the medical field.

Not everybody should deal in call options, but every investor should be doing constructive thinking about how to participate in the coming recovery. The important thing is this: Don't let the losses of the past year traumatize you into inaction just when the trend is about to reverse. ■



260TH COMMON DIVIDEND

A regular dividend of Fifty-two and One-half Cents (52½¢) per share has been declared upon the Common Stock of AMERICAN BRANDS, INC., payable in cash on September 1, 1970, to stockholders of record at the close of business August 10, 1970. Checks will be mailed.

C. A. MEHOS, Vice President and Treasurer
July 28, 1970

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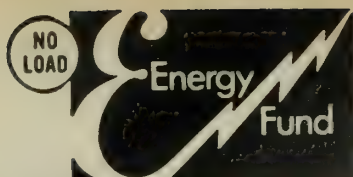
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READERS SAY

(Continued from page 11)

imbalance of competition with the penalties which that invokes. We have been talking informally with several airlines, but have not begun formal merger talks.

While we do need a remedy to enable us to compete on a realistic basis, we are also putting our own house in order, pointing toward a return to profitability.

—N.E. HALABY

President,

Pan American World Airways
 New York, N.Y.

The Name Is . . .

SIR: Re Four Seasons Nursing Homes and the \$4-million unsecured loan to Four Seasons by "the Ohio State pension fund" (*FORBES*, July 15). For your information, there is no "Ohio State pension fund." There are, four statewide public retirement systems in Ohio: the Public Employees Retirement System, the State Teachers Retirement System, the Police & Firemen's Disability & Pension Fund and the School Employees Retirement System. Only the School Employees Retirement System is involved with Four Seasons and Crofters.

—FRED L. SCHNEIDER

Executive Director,
 The Public Employees
 Retirement System of Ohio
 Columbus, Ohio

Lack of Diplomacy or Vodka?

SIR: In *FORBES* (*Fact & Comment*, July 15) you mentioned a remark made by Commercial Credit's Donald S. Jones concerning the "advantages" of a noon-time Vodka. Since Vodka is the national drink of the USSR, our Russia watchers should be aware of the fact that absurd statements made by their spokesmen may well be made after a midday swallow of their odorless refreshment.

—JOHN J. DiFAZIO
 Detroit, Mich.

About That Man

SIR: All too frequently Malcolm Forbes' expressed views are myopic with a depth perception charitably characterized as subcutaneous.

—CAMERON K. WEHRINGER
 New York, N.Y.

We Should Be One of Two

SIR: In the June 15 issue on page 47 you list some statistics about a few companies under different classifications. Under "Drugs & Chemicals" Johnson & Johnson and Becton Dickinson are listed. American Hospital Supply Corp. as of Dec. 31, 1969 had: cash flow of \$30 million, revenues of \$446 million and total assets of \$339 million. It seems to me that if you are going to pick two companies in our particular segment of the health industry, American Hos-

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—FOSTER G. MCGAW
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—CARL H. CATHER JR., M.D.
Morgantown, W.Va.



It Has Been Suggested

Sir: Re the suggestion that senators and representatives have a mandatory retirement age (*Fact & Comment, July 1*). Representative Dave Martin of Nebraska [has submitted a] bill which provides that no individual may be seated as a representative after attaining the age of 70 or as a senator after attaining the age of 69. If we could also corral the judiciary under these limitations and have it successfully passed into law, I would be the first to credit you, the prestigious bankers, and/or Dave Martin. I am a commercial pilot and by Federal Aviation Agency regulation, I am put out to pasture at the age of 60.
—WILLIAM J. RANKIN JR.
San Francisco, Calif.

Searching for a Better Answer

Sir: May I point out something that I think is wrong with your proposal to shoot the tires of hijacked aircraft (*Fact & Comment, July 15*). To date several flight crews have been able to persuade these "kooks" to allow them to land and refuel when necessary. This allowed them to safely complete their flights, and resulted in nothing more than inconvenience to their other passengers. It would be disastrous for any of us to have to ditch at sea because we were not allowed to land for fuel.
—M.F. PEARSON
Captain,
United Air Lines
Sparta, N.J.

Sir: I operate on the assumption that many, if not most, plane hijackers are

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This NO-LOAD mutual fund suspended sale of new shares to the general public on October 17, 1967.
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(Par value \$100 per share)

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	DEAN WITTER & Co. INCORPORATED

July 23, 1970



PUBLIC SERVICE ELECTRIC AND GAS COMPANY

QUARTERLY DIVIDENDS

The Board of Directors has declared the following dividends for the quarter ending September 30, 1970:

Class of Stock	Dividend Per Share
Common	\$.41
\$1.40 Dividend Preference Common	\$.35
Cumulative Preferred	
4.08% Series	\$1.02
4.18% Series	1.045
4.30% Series	1.075
5.05% Series	1.2625
5.28% Series	1.32
6.80% Series	1.70

All dividends are payable on or before September 30, 1970 to stockholders of record August 31, 1970.

MALCOLM CARRINGTON, JR.
Secretary

INITIAL DIVIDEND

The Board of Directors has also declared an initial dividend of \$2.5386 for the period June 25, 1970 to September 30, 1970 on the 9.62% Cumulative Preferred Stock.

PUBLIC SERVICE ELECTRIC AND GAS COMPANY
SERVING NEW JERSEY/LAND OF AMAZING ADVANTAGES



RJR

R.J.Reynolds Industries, Inc.

A quarterly dividend of 60¢ per share has been declared on the Common Stock of the Company, payable September 5, 1970 to stockholders of record at the close of business August 10, 1970.

WILLIAM R. LYBROOK,
Senior Vice President and Secretary

Winston-Salem, N. C.
July 16, 1970

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mentally unbalanced. If this be the case, then mandatory tire shooting and mandatory jail sentences are not going to deter hijackers.

—DAVID P. MORGAN
Editor,
Trains Magazine
Milwaukee, Wis.

The Real Real

SIR: In your discourse on milk shakes (*Fact & Comment*, Aug. 1), you say: "The Real McCoy." This is the same as saying Real Real. In the old days anything that was considered to be genuine—nonpareil, unequalled—like the whiskey of the same name was considered to be the McCoy.

—JOSEPH E. CARTWRIGHT
Pittsburgh, Pa.

The Peace Corps in India

SIR: I am writing to inform you of a new venture for the Peace Corps in South India. We have been requested to provide volunteers to assist small industrialists to set up their businesses.

Mention of the word "India" usually conjures up images of peasants plodding behind bullocks. Mention of "the Peace Corps" brings forth images of fresh-faced young Americans working with those peasants to make a better living. Both images are accurate, but India and the Peace Corps can show other faces.

India is a growing industrial nation. The last census showed 36,457 small factories in India employing 13 million people and producing goods worth \$2.68 billion. The state government of Andhra Pradesh and the government of India are actively promoting small industries. Not a day goes by that a prospective entrepreneur does not contact a state official about setting up a small business. Yet small industries are not being established as fast as the potential would indicate.

The typical small industrialist is not a businessman. He may be an agriculturist, a merchant, or an engineer with an idea. He may not be able to prepare a detailed plan which will satisfy financial institutions. He may be bewildered and confused by the complexity of setting up a small factory. It is in response to this situation that the Peace Corps has been asked to help. Peace Corps is not only for the young. Anyone who is willing to apply his skills to new challenges is welcome. Peace Corps provides orientation to Indian business practices, to the Indian culture and training in Telugu, the language of Andhra Pradesh. Conditions in India are rapidly changing. As old problems are solved, new ones emerge. The government of India has asked the Peace Corps to participate in the effort to meet the new challenges. The Peace Corps wants to help, but needs qualified people. Persons interested in helping should contact the India Desk, Peace Corps, Washington, D.C. 20525.

—NORMAN A. MILLER
Regional Director,
American Peace Corps
Richmond Town, Bangalore,
India

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THOUGHTS... ON THE BUSINESS OF LIFE

To be a success, devote three or four hours a day to being an executive and the rest of the time to thinking.

—FELIX FRANKFURTER

Heavy thoughts bring on physical maladies; when the soul is oppressed, so is the body.

—MARTIN LUTHER

True effort, in fact, as of a captive struggling to free himself: That is thought.

—THOMAS CARLYLE

Where all think alike, no one thinks very much.

—WALTER LIPPMANN

The brain is an apparatus with which we think that we think.

—AMBROSE BIERCE

They only babble who practice not reflection. I shall think; and thought is silence.

—RICHARD SHERIDAN

Character is higher than intellect. Thinking is the function. Living is the functionary.

—RALPH WALDO EMERSON

Individuality is everywhere to be spared and respected as the root of everything good.

—JEAN PAUL RICHTER

Every art and every inquiry, as well as every practical pursuit, seems to aim at some good, whereby it has been well said that the good is that at which all things aim.

—ARISTOTLE

A man must learn to endure that patiently which he cannot avoid conveniently.

—MICHEL DE MONTAIGNE

To have thought far too little, we shall find in the review of life, among our capital faults.

—JOHN FOSTER

Failure is, in a sense, the highway to success, inasmuch as every discovery of what is false leads us to seek earnestly after what is true.

—JOHN KEATS

B. C. FORBES

No man ever got very far—and stayed there—who did not spend a vast amount of brain-sweat, who did not think things out for himself, who did not try to map out his own course, to steer his own ship. By acquiring the true perspective of things, deep thought, calm reflection and silent contemplation—though accompanied often-times with backsliding and failure—serve to inspire one with courage, a fortitude, a faith and a determination that the puny acts of man cannot destroy. Big things can then become little, and little things big.

The effort which I make people are pleased to call the fruit of genius; it is the fruit of labor and thought.

—ALEXANDER HAMILTON

The greatest of all human benefits, that, at least, without which no other benefit can be truly enjoyed, is independence.

—PARKE GODWIN

All thought is immoral. Its very essence is destruction. If you think of anything you kill it. Nothing survives being thought of.

—OSCAR WILDE

It is not in the power of the most exalted wit or enlarged understanding, by any quickness or variety of thought, to invent or frame one new simple idea.

—JOHN LOCKE

The true and strong and sound mind is the mind that can embrace equally great things and small.

—SAMUEL JOHNSON

To think is to differ.

—CLARENCE DARROW

Good judgment (like wisdom) requires careful appraisal of all three sides of the decision cube. Only a human computer with five sensory inputs, electro-biochemical memory core, plus a volition-laden imagination can do this. Industry hasn't been able to produce a like system yet. It is called the Model 1 Homo Sapiens.

—W. SIDNEY TAYLOR

More than 3,000 "Thoughts," indexed by author and subject, are now available in a 574-page book at \$6.95. Send check and order to: Forbes Inc., 60 Fifth Avenue, New York, N.Y. 10011. (Sales tax: New York State, from 3% to 6%; New York City, 6%.)

A Text...

Sent in by Mrs. Arthur J. Conroy, Garden City, N.Y. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

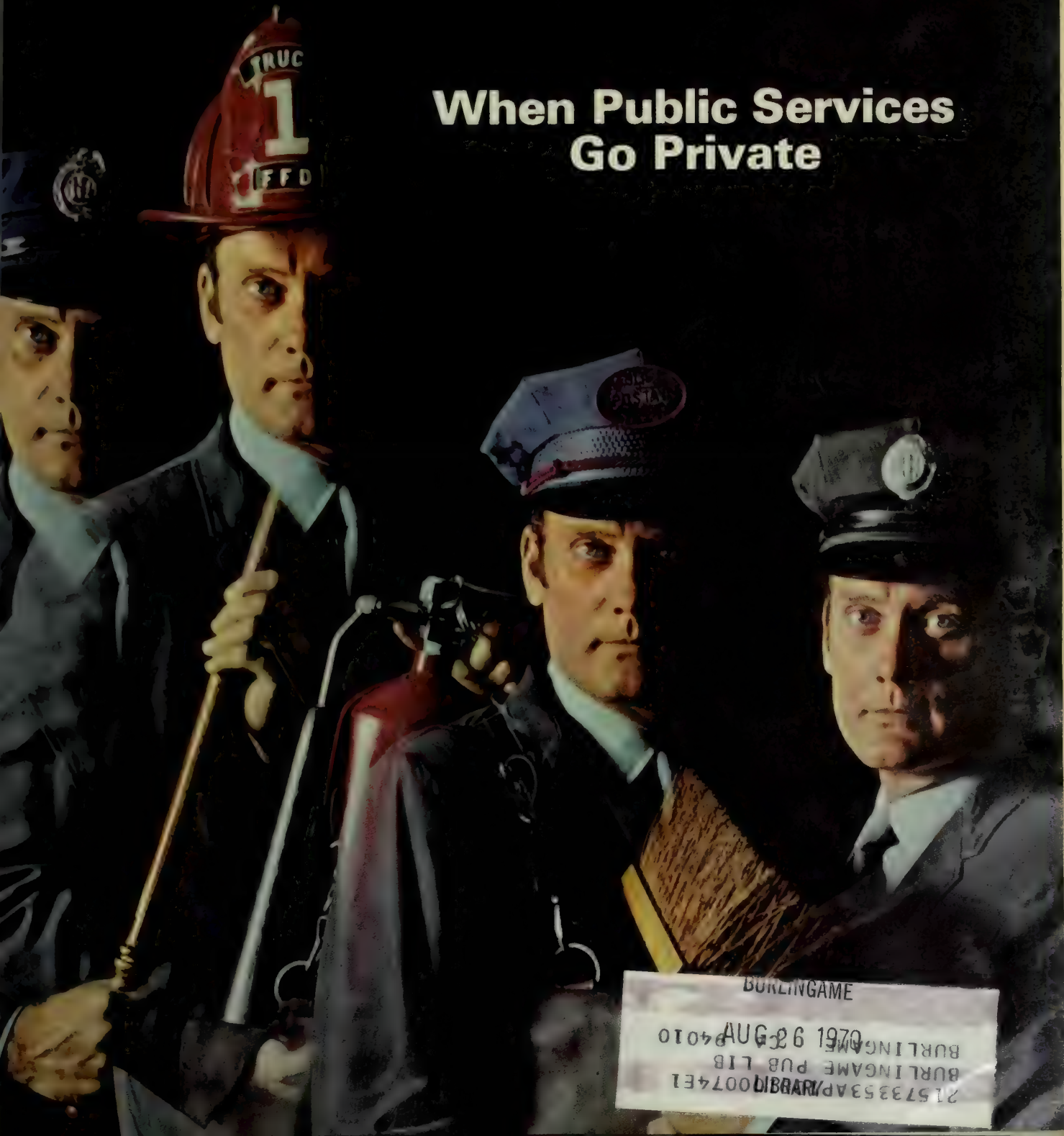
While we look not at the things which are seen, but at the things which are not seen: for the things which are seen are temporal; but the things which are not seen are eternal.

—II CORINTHIANS 4:18

SEPTEMBER 1, 1970 / SEVENTY-FIVE CENTS

FORBES

**When Public Services
Go Private**



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The \$100,000,000 Man

Being responsible for a major corporation's pension fund is no company picnic. Because this man is highly experienced, he's aware of the need for expert management. So he's turned to Chemical Bank, where he knows they talk his language.

Managing pension plans has been a Chemical Bank specialty for years. Our knowledge and experience cover highly technical areas. Like government regulations. Plan design. Financial reporting. And most importantly, investment opportunities.

At Chemical, there are no pat formulas for pension fund management. Our strategy is flexible in design and operation in order to suit portfolio goals of individual companies.

If you're responsible for other people's money, contact the experienced portfolio managers at Chemical Bank. Call Mr. Kennedy at (212) 922-6500.

You'll find your money works best for you when you let professionals work with it.

CHEMICAL BANK
We do more for your money.

Pension Trust Department, 277 Park Avenue, New York, N.Y. 10017

The advertisement below is as true today as it was in May 1938, when it first appeared.

It was an accurate prediction then; it is equally so today. And the future it predicts

is even more certain now, with modern improved equipment such as Warner & Swasey machine tools, construction equipment, and textile machinery.

"The Sun Always Rises"

● You and we have lived through many periods like this. They all follow the same pattern:

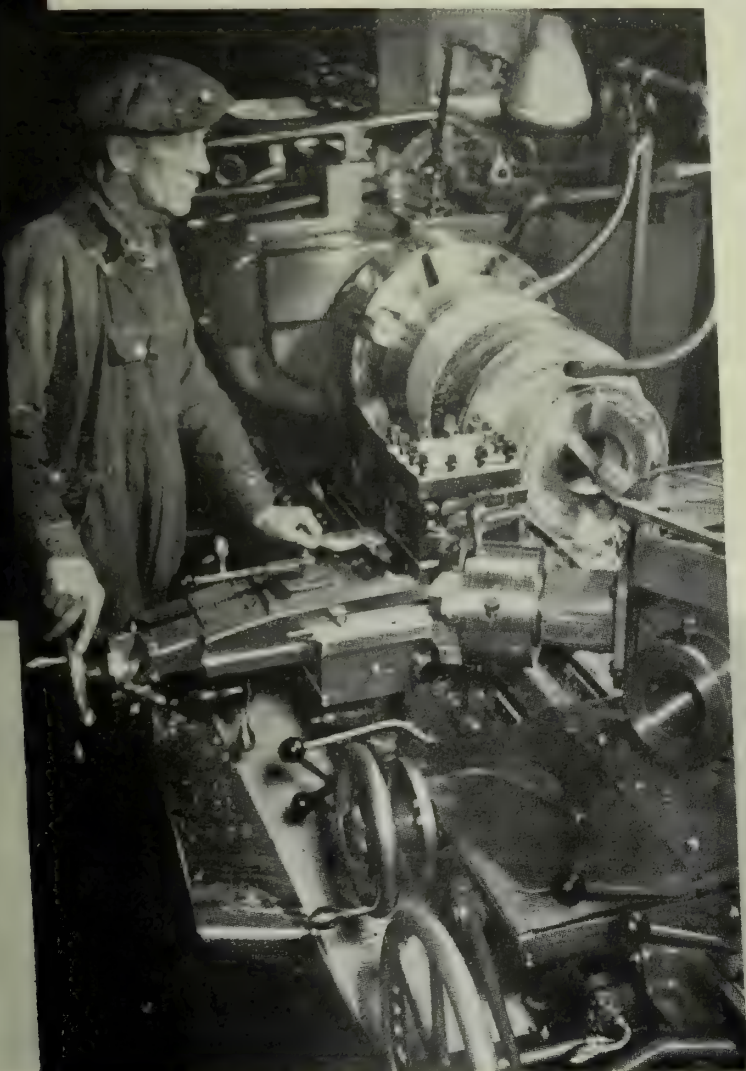
People get the idea the world is coming to an end. They stop buying. That makes business worse. Then they're sure it's all over. But miraculously the world doesn't end. A few get sensible again and buy a little. Then with a rush everybody wants to buy, and there's a shortage.

If you are one of the sensible executives who knows perfectly well he's going to continue doing business, now is the time to put your plant on a low-cost basis.

Later, when the rush begins, you'll have to wait for deliveries, you won't have time to make sure you're getting the best buy, you'll have a tight production schedule you may hesitate to interrupt. Then you pay a penalty in higher costs and lower profits for years.

Far-sighted concerns are buying improved, faster, more accurate Warner & Swasey

Turret Lathes now, and making a profit on them even on today's reduced production. Tomorrow they'll make enormous profits because their costs are low. And tomorrow you'll have to compete with these concerns—and they'll dictate price because they control costs. Isn't it sound to let us discuss with you today, when you have time, a low-cost basis for your plant, too?



**WARNER
&
SWASEY**
Turret Lathes
Cleveland

You can turn it better,
faster, for less... with
a Warner & Swasey.

Savin named co-respondent in thousands of office divorces.

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The big reason for the break-up is that the Savin copier hardly ever breaks down. Reason: Savin has eliminated the major cause of copier breakdown—paper-jamming. How? By using a roll of copy-paper instead of a stack of sheets. And Savin doesn't demand lots of money to own or lease. It doesn't require a



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If you find all this hard to believe, let a Savin in your office for a demonstration. We think you'll like it so much you'll ask for a divorce.

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Valhalla, New York 10595.

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SAVIN COPIERS WE LOVE TO REPEAT OURSELVES

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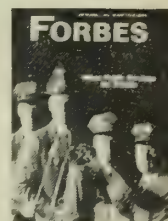
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FORBES is published twice monthly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office, New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.



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Side Lines

Paging Sigmund Freud

THE FOLLOWING LETTER, unsolicited, recently passed across our Editor's desk. It was from Hugh Moffett, a FORBES reader and former assistant managing editor of *Life* magazine, who now lives in Brandon, Vt. We don't know Mr. Moffett personally, but, the way he writes, we wish we did.

SIR: I need to tell someone the following incident. It took place that bleak morning a few months back after the stock market had been sinking fathom after fathom and finding no ground. With faithful dog at my feet I sat by the stove reading *The Wall Street Journal* and *The New York Times*. They spoke of market doom, tight money, campus chaos and Cambodian mire. After two hours of it I said to the faithful dog:

"Oh crap, things can't possibly get any worse than this."

Then I determined to take, as you people say, a position in the market.

I went to the phone, called Bache and asked to buy 50 shares of McCulloch Oil. After this monumental transaction was put in motion, not before, I enquired of the lady broker how things were going down at the slaughterhouse. She said:

"It's going wild. The market is up, volume is up. Several people have actually smiled."

A day or so later I read that brokers said the turnaround was caused by spontaneous action all over the country. I don't know whether the other folks had exactly the same impulse experience I had, but there you have one case history.

Sincerely,
Hugh Moffett

Thanks for the case history, Mr. Moffett. You raise quite a question: Why was it that you and thousands like you decided at almost precisely the same time to buy stocks and thus turn the market around. Why on that day? We at FORBES often have pondered why no one has really studied the behavioral psychology of investing. That is, why *do* people buy when everything looks dark? Or why do people go wild over new issues, or computer stocks or fried chicken stocks—and then sour on them? Why do people react in the same way at the same time? Nobody knows. Instead, the experts try to explain the market in terms of money supply, price/earnings ratios, earnings trends.

Here is the U.S. consumer, the most analyzed, studied, metered, computered, measured creature in the world when it comes to his preferences in soap and beer. But the investor, whose impulses and moods can swing hundreds of billions of dollars in values, is just an abstraction.

Just chew on this fact: Eighteen months ago all the stocks listed on the Big Board had a market value of \$692 billion; today the figure is only \$531 billion. Did the fundamentals change all that much? Of course not. But investor psychology did.

In our "Money Men" (p. 43) we feature a man nobody in the investment business has ever heard of, a California teacher and private investor, John King. He has some interesting ideas as to why Hugh Moffett and thousands like him tend to have the same impulses at the same time.

We're saying there is room in economic analysis for Sigmund Freud and B.F. Skinner as well as for J.M. Keynes and Milton Friedman. ■



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Trends & Tangents

BUSINESS

'Tis the Season To See Folly

The 1929 stock market crash produced a flood of books explaining—or trying to explain—what went wrong. Already, the 1969-70 crash is starting to do the same. Among the first is Richard Ney's *The Wall Street Jungle*, published by Grove Press. Ney, an actor turned investment adviser, puts the bulk of the blame on the New York Stock Exchange specialist, a favorite target of many reformers over the years but very far from being the chief villain in recent events. For those looking for a scapegoat, the book may give some consolation; it's selling fast and has attracted wide publicity. But as a sensible useful explanation of what went wrong, forget it. Meanwhile, the flood of books is gathering full force. Others coming: *The Seventies Crash: How It Happened* (World Publishing Co.); and an unauthorized biography of Bernard Cornfeld.

Getting Later

As U.S. automakers gear up to produce their own small cars, the need to retaliate against the inroads of small foreign cars becomes more urgent. In July more imports than ever before were sold in the U.S., raising their market share to 15.6% from 12.5% a year earlier. The Japanese—second-ranked Toyota and third-ranked Datsun—led the way with 78% and 58% increases, while leader Volkswagen also weighed in with a 21% gain. Discouragingly, the foreign makes that fell in volume were those owned by the U.S. auto companies: General Motors' Opel, Ford's Cortina and Chrysler's Simca and Rootes were down from 21% to 64%.

Pollutionless Power

Generating electricity without also generating air and water pollution is a problem plaguing the electric utilities. Union Oil Co. has found one way to ease the problem in California. It has harnessed the energy of natural geothermal steam fields at a spot north of San Francisco called the Geysers. This steam, which is produced when hot rocks meet cold water under-

ground, is the same force responsible for the performance of Old Faithful at Yellowstone Park. Because combustion is not needed to heat the water there is no smoke or ash. The only by-product is water which is pumped back into the ground to make more steam. Already operating an 82,000-kilowatt system with Pacific Gas & Electric, the only privately developed system in the world, Union has leases in other geothermal steam producing areas.

Them As Has . . .

What with everyone counting pennies more closely these days, one would expect to find the business of selling fine art objects in a bit of a slump. Not so, reports London-owned Parke-Bernet Galleries, the nation's largest fine arts auction company. For the year ended July 31 Parke-Bernet's auction sales jumped from \$32.5 million to \$39.5 million. The biggest percentage gain was in jewelry sales, up from \$4.8 million to \$6.3 million, though the company's turnover in paintings (\$15.1 million to \$16.8 million) and decorative artworks, such as furniture (\$8 million to \$9 million), rose nicely too.

(Continued on page 61)

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READERS SAY

No Place for Sanity?

SIR: I found some poignancy in Alfred E. Perlman's quote in the July 15 issue: "We need some understanding from Washington and the public—not more charges and countercharges." As a former public relations representative with the New York Central, I interpret this comment as a belated realization that logic and rationality are not always the most effective methods of achieving an end. Perhaps unrealistically, Mr. Perlman relied on the good sense of intelligent men to recognize what he was trying to accomplish.

He actively encouraged the application of scientific methods to railroading: systems analysis, extensive use of computers, new techniques in freight handling and others too numerous to mention. But one of the major contributions he made was to inculcate into every manager on the Central that the name of the game is marketing. The introduction of modern marketing techniques helped to make the Central a going concern.

One apocryphal story that terrified the Central's marketing staff in the mid-60s arose at the time archival Pennsy started their marketing department. One Central executive was visiting his counterpart in Philadelphia during merger negotiations and returned to New York with a sad expression on his face. He said, "The Pennsy just started a marketing department." "Oh, yeah," he was asked, "how did they do it so fast?" His reply: "Simple. They just took their freight sales department and split it in two."

—TERENCE A. MCCARTHY
Vice President,
Robert L. Bliss Inc.
New York, N.Y.

The Public Pays

SIR: You tell of Eugene Klein issuing \$400 million of stock, convertible debentures and warrants (FORBES, May 1). It was my understanding that only the Government of the USA can issue money, but apparently the head of a large corporation can do likewise—only it is called stock; and just like the toll of inflation when a government overissues money, so the burden of the stock issue afflicts the public.

—A. BOFMAN
Chicago, Ill.

Sometimes it also afflicts the issuer. Consider the recent troubles of Leasco and Gulf & Western, among others—ED.

Fundamentals Come First

SIR: Heinz Biel talks of portfolio managers being "locked in" to IBM, and the Dreyfus Fund into Polaroid, because of capital gains tax considerations, and "this in turn created an artificial scarcity with the result that prices of such stocks were driven to levels which were difficult to justify on fundamentals" (FORBES, July

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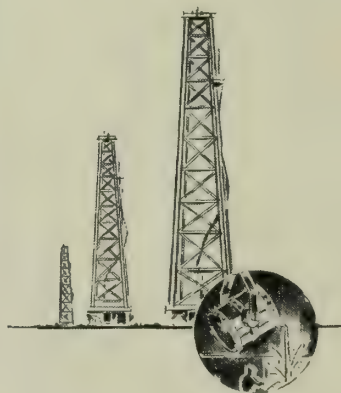
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15). Mutual funds do not pay capital gains taxes, and their portfolio managers should base their buy and sell decisions on fundamentals alone.

—THOMAS F. MURPHY
Fairfax, Va.

Replies Heinz Biel: "The Fund's shareholders do pay the capital gains tax, but a fund manager may be reluctant to make a huge capital gains distribution which would reduce the total assets under his control."

Wrong Credit

SIR: The quotation attributed to Adlai Stevenson under "Thoughts" in the Aug. 1 issue ["Go placidly amid the noise and the haste..."] is actually from "Desiderata," a writing found in Old Saint Paul's Church, Baltimore, and dated 1692. Mr. Stevenson may have said it, but someone else said it first.

—FRED C. ALLEN
Rolling Hills, Calif.

FORBES has received 31 other letters from readers stating that the quotation is taken from "Desiderata." Some said it was written by one Max Ehrmann, but most opted for Old St. Paul's Church—Ed.

Greek Chorus?

SIR: Re the indestructible wealth of the Greek shipowners (FORBES, Aug. 1) ... "Count no man happy until you know the end of his days" (Oedipus Rex). I expect FORBES will outlast the contemporary Greek dynasties so as to play the classical role of the dramatic chorus. You have yet to narrate the final scene.

—SAMUEL J. BODANZA
Highland, N.Y.

A Call for Help

SIR: For over eight years I have been attempting to trace the history of the Ryan Aeronautical Co. of San Diego, Calif. Eventually the full story will be printed in the *Journal of the American Aviation Historical Society*. At a later date I hope to put it into book form. This is just a hobby with me, stemming from the ownership of a 1936 Ryan ST airplane a few years ago. One phase of this study is to obtain at least one or two good photos of each individual plane the Ryan firm produced. Also to establish contact with former owners of Ryan-built aircraft, employees of the company and people who flew in these fine machines, together with people who were associated with Ryan in their businesses.

The specific Ryan models I am most interested in are the early "Cloudster," M-1, M-2, B-1 "Brougham" series, B-3, B-5, C-1, ST, SC, and of course the Spirit of St. Louis flown by Charles Lindbergh. Regarding the Spirit, a mystery has existed all these years as to the actual serial (mfg.) number of the airframe. It is assumed the number is 29 but this has never been confirmed. Even the FAA does not have this in their records. A

(Continued on page 59)

YOU'RE BEING ROBBED!

Virtually every time that you spend money, whether at the supermarket, department store, drugstore, or gas station, you're being **ROBBED!** You're being duped, hoodwinked, and swindled out of the full value of your money by a combination of deceptive selling techniques that include Madison Avenue double-talk, mendacious salesmanship, and insidious labeling and packaging plays. Senator Warren Magnuson, the most alert consumer watchdog in Congress, says that deceptive selling is today's "most serious form of theft, accounting for more dollars lost each year than robbery, larceny, auto thefts, embezzlement, and forgery combined." Sidney Margolius, the dean of American consumer writers, asserts that "Never in the 30 years I have been reporting on consumer problems has the public been as widely and steadily exploited as today." And Ralph Nader, the nation's most renowned champion of consumer rights, states that "Nowadays consumers are being manipulated and defrauded not just by marginal, fly-by-night hucksters, but by America's blue-chip business firms." In short, commercial flimflammy is rife throughout the nation and the American consumer is being victimized as never before. As a partial antidote to this widespread fraud and deception, an intrepid, authoritative, new publication has been launched. Its name is **Moneysworth**.

Moneysworth, as its name implies, aims to see that you get full value for the money you spend. It rates competitive products as to best buys (as among cameras, hi-fi's, automobiles, and the like); it offers tips on how to save money (they will *astound* you with their ingenuity); and it counsels you on the management of your personal finances (telling not only how to gain maximum return on your investments and savings, but also how to protect your money against the ravages of inflation). In short, **Moneysworth** is your own personal consumer crusader, trusted stockbroker, and chancellor of the exchequer—all in one.

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example, and Christmas gifts and ski equipment in the fall.)

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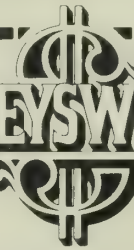
The editors of **Moneysworth** are a team of hard-nosed, experienced journalists. The editor-in-chief is Ralph Ginzburg, creator of the flamboyant magazines *Fact*, *Eros*, and *Avant-Garde*. Mr. Ginzburg was the first editor to provide a platform for Ralph Nader to express himself on the subject of automobile safety. **Moneysworth's** publisher is Frank R. Brady, generally regarded as one of the publishing industry's shrewdest financiers. Herb Lubalin, the world's foremost graphic designer, is **Moneysworth's** art director. Together, these men will produce the first—and only—consumer magazine with *charisma*.

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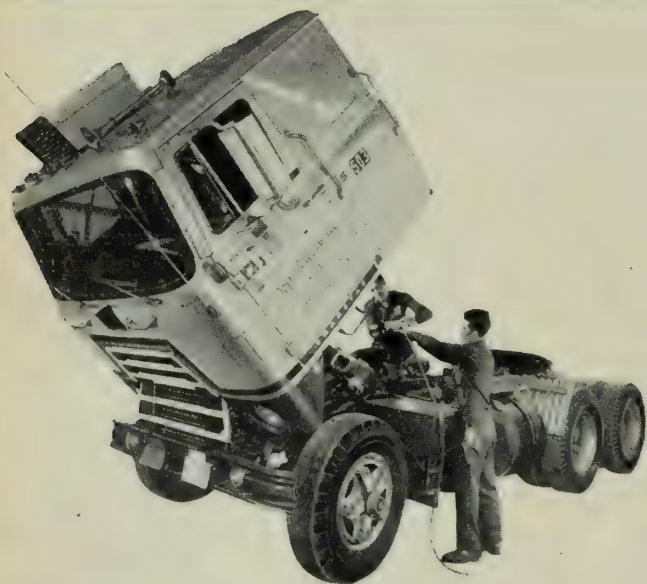
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Fact and Comment

COULD BE

Woodrow Wilson is most remembered as World War I President and for his failed fight to have this country join the League of Nations. One of his most important and lasting achievements, however, came during his first term with the establishment of the Federal Reserve System that for over half a century has been the foundation of our money-banking system.

President Nixon has recently appointed a commission of top-notch citizenry "to review and study the structure, operation and regulation of the private financial institutions in the U.S., for the purpose of formulating recommendations which would improve the functioning of the private financial system."

Vast and fundamental changes in the free market places for capital and of capitalism are at hand: "Liquidity" is a vogue word of the moment for one facet of the problem; the difficulty of raising equity capital under today's conditions and by yesterday's methods is another; the place, even the question of *if* there is a place, for the small individual investor is in question; how to control the con-

stantly growing power of institutional investors, particularly unfiduciary-minded mutual funds which often have the stock blocks to make or break or otherwise dispose of individual corporations; what to do about the takeoverers who so often turn out to be undertakers for the over-taken.

This Nixon commission will be wrestling with recommendations that go to the very essence of a functioning free enterprise economy. Without that free enterprise economy, freedom itself in every aspect is in jeopardy.

In short, what emerges from this Nixon Administration study could be the most far-reaching and impactful since Woodrow Wilson's aforementioned accomplishment.

Contrary to some superficial criticisms that too many commission members are "in the business," that should be a source of strength. After all, sometimes it helps to know a little something about what one is talking about.

And of inestimable value to all of us who work for a living is the fundamental belief of the President and his Administration in the viability and complete desirability of a free but responsible free enterprise system.

TO BE OR NOT TO BE A TRUSTEE

Whether it is the function of corporate directors to actually function has been debated since the evolution of the corporate structure. There have been no definitive answers. No particular practice has emerged as Dogma.

One provocative and not easily dismissed approach was simply put by Isaiah Bowman, the retiring head of Johns Hopkins University, about his board of trustees:

"Every time the board of trustees meets, the agenda paper should contain but two items. The first item ought always to be, 'Shall we fire the president today?' If the an-

swer is 'yes,' then item two on the agenda paper should be, 'Who are to serve on the committee to select a new president?' The board should then adjourn. But if the decision on the first question is, 'We shall not fire the president today,' number two should be, 'What can we do to support the administration?' . . . Sink or swim; once you are committed to a choice, the administration must be supported."

If there was or ever is a simple answer to the complex question of the function of trustees or directors, that is one not without merit.

AT THE TOP OF THE MOST-WANTED LIST

An ombudsman or the equivalent thereof for those being rued-and-tattooed by the computer.

Valiantly tilting one's individual lance against a computer wrong makes Don Quixote look like an odds-on favorite in his assault on windmills. Neither chivalry nor compassion nor a modicum of understanding are imputable to the nearly omnivorous computer maw.

Who among us has not sought at length and often in vain to correct a computer billing error or magazine subscription labels or any one of the infinite other matters which are pouring ceaselessly, endlessly into their ever-expanding memory banks?

Who among us doesn't have many funny tales to tell of

tussles with this ultimate technological achievement? Funny—like Sick jokes and Morbid.

With the widening spread of instant credit information, a man's reputation and life can be near-ruined by the growing centralization of computer-banked information and misinformation. To know what I mean, read that horrifying tale in the July 27th issue of *Newsweek*.

There absolutely must be some sort of appeal from this electronic Sentencing, some way to set a record that's wrong right; some way for the said-about to take issue when wronged by what the printout is saying.

Otherwise, Orwell's 1984 will be with us a decade ahead of its time.

A TRAVELER'S SIMILES

As rare as an English waiter in London.

As rare as cordiality in France.

As rare as a good bullfight in Spain.

As rare as a hagglesless price in Morocco.

As rare as good spaghetti in Rome.

As rare as an unkind Italian.

As rare as a music hater in Austria.

As rare as a reasonable price in Germany.

As rare as an unpleasant Dane.

* * *

Sure Sign Of A Free Country:

Traffic jams.

GOOD MAN GONE

It's oft been said rich men's sons have many advantages to overcome if they are to lead constructive lives.

Exceptions come readily to mind and one of the greatest of these in our time was Dick Mellon. He had wieldy holdings in Alcoa, Gulf, Koppers, Mellon Bank, First Boston Corporation, and great influence on numerous others.

He took his many talents (in the biblical sense) and indeed multiplied them. Early recognizing the impossibility of running these multiple giants himself, he had a near-uncanny knack for picking helmsmen and giving them full

rein and fully of the fruits of their success. Despite a real modesty, with genial determination he put his stamp on every aspect of the great City of Pittsburgh and all about it. He married one of the three beautiful daughters of Morgan millionaire Seward Prosser, an Englewood, N.J. neighbor of our family. In all the years since, I have seen Dick Mellon many times in many climes and never observed him undone or overdone by the powers and problems of vast wealth.

He spread the Good Life and enjoyed it.

HISSING THE VILLAIN

If you try pronouncing SST it comes out as a sort of cross between a hiss and an attention-getting psst. The SuperSonic Transport for which the initials stand is getting an increasing amount of both.

It's been a while since a Prince of Wales has made any public noises of particular relevance to this longago Colony, but Prince Charles, sounding every bit his father's son, recently made his observation to England on the touchy French-English SST, Concorde:

"Sometimes I think I would like to go in it. But then, if it is going to pollute us with noise, if it is going to knock down churches or shatter price-less windows when it tests its sonic booms—is this what we really want?"

"This is one of the technological achievements

which could do harm. What sort of price are we prepared to pay for this sort of advance?"

Being able to cross oceans—at fantastic cost—quicker than you can now reach airports from home and office is simply an asinine assignment of priorities.

NOTE TO SALARY SETTERS

Pay a man the least possible and you'll get from him the same.

—MALCOLM S. FORBES,
Editor-in-Chief



Ever since we got together, the world has taken on a different look.

No, the giants haven't disappeared.

When we got together, we didn't expect them to.

But, happily, the world has taken on a different look.

For one thing, we, at Great Northern Nekoosa, are a lot bigger than we were before. When we were Great Northern and Nekoosa Edwards.

Now we have combined assets of \$430 million, combined sales of \$340 million and a net income of \$20 million a year.

Which means we can look forward to more financial power in the future.

For another thing, we're better situated in the marketplace. Because we're in more markets.

We're the country's leading independent producer of newsprint and containerboard. And a leading producer of high-grade business communication, printing and publishing papers.

We're a major innovator of papers for computers and copiers. And a major producer of papers for directories, catalogs, magazines, paperbacks and special supplements.

If one of our markets happens

to be down, chances are others will be up.

Since we got together, the world has never looked better.

If you'd like to find out more about us, write to Peter Paine, Chairman of the Board, Great Northern Nekoosa, 522 Fifth Avenue, New York, New York 10036.

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Western Union International Inc.

Caught in the Backlash

Avco Corp. has nothing to do with Penn Central, but the big railroad's collapse almost brought down Avco.

THE TOP MEN at Avco Corp. make their headquarters amidst trees and lawns on the lavish estate of the late Publisher Henry B. Luce in Greenwich, Conn. Only a few minutes pleasant drive away are many of their homes, country clubs and boat basins. Just across the highway, convenient for the corporate aircraft, is the White Plains, N.Y. airport.

But recently the Avco men have had scant chance to enjoy their pleasant surroundings. For months they have been scurrying around the U.S. in search of financing. Finally, in mid-August Avco lined up the credits it needed. What the costs will be for its stockholders, however, remains to be seen. Certainly the costs already are great. Its stock, which sold as high as 65 in 1967 and 1968, recently sold around 9. Many of its bonds are selling for around 50 cents on the dollar. Like Chrysler, which recently faced a crisis in commercial paper, Avco got hit with the backlash from Penn Central.

Unlike Penn Central, Avco was not primarily a case of bad management. Avco was brought to the brink of disaster by an ill-timed use of leverage. As against stockholders' equity of around \$420 million, parent Avco found itself carrying a debt load of \$680 million. Its recently deconsoli-

dated finance subsidiaries were even more highly leveraged: \$1.1 billion debt vs. \$220 million equity. The worst of it was: Avco and its finance subsidiaries owed over \$600 million in commercial paper that was coming due at an alarming clip, with new Avco commercial paper almost unsalable.

Trying Times

"These have been trying times for us," said James R. Kerr, Avco's \$250,000-a-year president and chief executive officer. "Particularly the last six or eight weeks since the Penn Central bankruptcy." Kerr was tired but pleased as he spoke. He had just gotten a group of 18 banks, headed by several big New York banks, to recast Avco's short-term debt with an \$890-million line of credit.

Avco had managed to buy some valuable time and breathing space. Unlike Penn Central, Avco was not running deep in the red. Its subsidiaries, though hurt by the recession, were mostly profitable. The problems that nearly brought Avco down were chiefly financial. Avco is a major finance company among other things, and finance companies require huge amounts of short-term debt. In recent years, three major finance companies have collapsed, raising doubts in the

minds of the money lenders. Then came the Penn Central situation. Sound or not, Avco could no longer get new money as its older short-term paper matured.

There was another, though less immediate, problem. Avco is tied into ailing Lockheed's L-1011 plane as a major subcontractor. If Lockheed can not get the \$500 million it is desperately seeking, Avco's considerable investment in the L-1011 could be lost.

The leverage that put Avco in such jeopardy this year arose out of a well-planned program for changing itself from a defense-oriented company into a diversified holding company. In addition to its defense businesses (major airframe components and gas turbine engines), Avco already owned New Idea, a smallish farm equipment maker; 12 radio and TV stations and a finance company, Avco Delta. Then it merged with Worcester, Mass.' Paul Revere Corp., a big insurance company, in a deal that left Revere's owners, the Harrington family, as Avco's chief stockholders.

In fairly rapid succession Avco acquired Seaboard Finance (consumer loans), Embassy Pictures, Rancho Bernardo (land development) and Carte Blanche (credit cards and travel). "Our strategy," explains Jim Kerr,



Frying Pan To Fire. Avco management was right to change its old defense orientation, but the diversification turned out badly. Like the contract to make wings

for Lockheed's airbus. Avco has poured in \$71 million, must come up with \$40 million more by mid-1971. This at a time when Lockheed's very future is in doubt.



"I've just one word, 'plastics,' " was a punch line from the hugely successful movie, *The Graduate*. Avco didn't go into plastics, but it did buy Embassy Pictures, maker of the film. But Embassy never repeated its success and Avco is trimming back its movie operations.

"had been to move away from cyclical, high-labor-cost operations into growing financial service operations and leisure-time activities like land, travel and entertainment." Its sales climbed nearly 50%, to \$900 million. Considering what has since happened to the defense industry, this looked like a wise move.

Where the problem came in was this: Since its common stock was low in the early days of the acquisitions program, Avco and its finance subsidiaries relied heavily on borrowing for its expansion plans. Funded debt, not counting short-term loans, soared from around \$270 million in 1966 to some

\$965 million at the end of last year.

Kerr ruefully admits there was a major cost factor they underestimated in all this: "the cost of money." It was smart to avoid high-labor-cost businesses. But Avco's bosses forgot that money costs could rise even faster than labor costs. Interest costs were running at an annual rate of \$140 million in 1970 vs. just \$32 million four years ago. Says Richard W. Yantis, group executive, financial services, and a member of the finance committee: "We missed our estimates on the cost of money by 15% this year and it is costing us an additional \$8 million to \$10 million after tax."

Kerr acknowledges that Avco erred far more than that on the assumption of the *availability* of credit. "We knew the economy was headed downward. But we also assumed that interest rates would be declining earlier this year and money would be somewhat easier. In fact I made a speech to a group of bankers about that last April on the West Coast." Now Kerr figures rates won't go down at all this year. Perhaps it will for prime borrowers, but for Avco, no longer a prime borrower, the cost actually is up.

Meanwhile, Avco's operational problems, while not fatal, were certainly very bothersome. In Canada, Avco Delta's insurance operations had gone into the red. In the U.S., earnings were hit this year by trucking strikes that affected its abrasive and specialty steel operations, and by lower sales of light aircraft engines (Lycoming is a major engine supplier). There were high start-up costs in a new manufacturing plant of Moffats Ltd., a Canadian manufacturer of electric and gas ranges. There was a sharp decline in earnings from Avco Embassy Pictures,

an equally sharp decline in broadcasting, continuing expenses from the Lockheed L-1011 program and lower capital gains.

None of these operating problems alone would have pushed Avco to the brink but they certainly hurt. All in all, earnings were down in the first half from \$1.54 to 23 cents a share.

According to Finance Committee Chairman Yantis, Avco had a negative cash-flow in the first half of 1970 of \$58 million. An additional \$40 million of L-1011 costs will peak between mid-1970 and mid-1971. He hopes to run near break-even in the first half of 1971, excluding L-1011 costs.

So it was that leverage and diversification, until recently articles of faith among corporate men, almost proved Avco's undoing. The company has been saved from insolvency. But the banks and insurance companies are having a big say in Avco now and are calling some of the shots. That is the inevitable price of rescue by the moneylenders. The lenders are urging divestiture of a number of marginal operations over the next few months. These could bring in some \$50 million to \$60 million in cash. The closing down of Avco Delta's marginal commercial finance business, one-third of Avco Delta, could throw off another \$60 million over the next nine to 12 months. Avco has also virtually gutted its movie operation, cutting back production from 15 films (with a budget of \$25 million) this year to one film next year. Other cutbacks could follow. The carefully planned diversification program has been badly set back.

Moral: It will be a long time before either leverage or diversification are again regarded as a sure cure for corporate ailments. ■

How Avco Squeaked Through

ACTUALLY, Avco's troubles were piling up even before the Penn Central collapse brought them to a head. Early this year, when convertible debentures were still highly salable, Avco was readying a \$50-million offering of convertible bonds. The Securities & Exchange Commission wanted Avco to file a five-year pro forma income account including Seaboard Finance operations, acquired only in 1969. This would have penalized Avco's earnings. As a result, the issue wasn't cleared until the crash, and the issue has never been sold.

Avco's underwriters were Lehman Bros. Faced with maturing commercial paper and the near impossibility of marketing bonds, Lehman also tried in June to put

together a \$50-million long-term issue for Avco's finance subsidiary, Avco Delta, but couldn't find buyers—even though it kept raising the interest rate to 10% and higher. The Penn Central collapse finished off any chance of selling a semispeculative issue to the institutions.

The Avco Delta financial people were becoming really worried. The issue had to be sold because some commercial paper was coming due. In July Avco and Lehman Bros. decided to cut the issue down to \$30 million, put a whopping 11% coupon rate on and sell the debentures to individual investors. It took some doing, but Lehman Bros. and its syndicate managed to sell the issue.

It took an additional five weeks

to line up an \$890-million total package of credit to back up Avco's fast-coming-due short-term liabilities. The bankers, led by Morgan Guaranty, Chase Manhattan, First National City of New York and 15 others, renegotiated a \$175-million revolving credit into a \$279-million one. The banks also lent Avco \$105 million through Paul Revere Corp. In Paul Revere the bankers obtained a free and clean lien on the assets of its big healthy life insurance operations.

In just seven weeks Avco has whittled its commercial paper from over \$600 million to \$275 million, and the latter is covered by the unused portion of the line of credit.

Now Avco's executives have more time to devote to operations.

The Men Who Make Treasurers Tremble

You've probably never heard of Albert C. Esokait or H. Russell Fraser. Just about every corporate treasurer has.

LAST SPRING, the Pennsylvania Co., the real estate subsidiary of the Penn Central system, was preparing to raise \$100 million of additional debt in a public offering. On May 14, Standard & Poor's rated the Pennsylvania Co. bonds BB—speculative. The bond offering never reached the market.

Such, in times of economic uncertainty, is the power of Moody's and Standard & Poor's, the two major bond rating services. Though companies won't admit it, more than one has canceled a financing because of a low rating. Five years ago the typical A-rated corporate bond, such as Montgomery Ward, would sell to yield 4.9%, a BBB (the next lowest S&P's rating) for 5.1%, only about a fifth of a percentage point higher. Today an A might be priced at 9%. But a BBB might have to be priced as much as 1% higher, a fivefold increase in what is called "the spread." For a company such as Boise Cascade Credit Corp., which recently got the lower rating

from S&P's for a \$75-million debenture issue, the difference could cost the company \$3.7 million over the short five-year life of the debenture. Add to this the jittery commercial paper market where a low bond rating may make it impossible for a company to turn over a maturing issue. For such reasons, one Wall Street investment banker calls Moody's and S&P's "powerful, very powerful."

Handicappers

Neither Moody's nor S&P's officially admit that they can make or break a debt offering or establish an interest rate. They point out that other factors also determine the interest rate of a specific corporate bond: the size of the issue, whether it has a call provision, and the underwriter's judgment as to its marketability.

But realistically, these two services do have a huge effect on interest rates, for they measure the all-important question of *quality*. In effect, their ratings are judgments of the odds that a company will pay back the interest and principal on a debt issue fully and on time.

The most respected of the bond rating services is probably Moody's. It is older (61 years compared with 46 years for S&P's). And its boss is Albert C. Esokait, a 62-year-old Moody's senior vice president who has spent 45 years at Moody's. Esokait is proud of these years. "I went through the Depression when things were rough and tough and I examined hundreds of companies that went through the wringer. That was a time when the only way to judge the value of a security was by an exhaustive examination of the balance sheet. I think more intensive research was done then to substantiate an opinion, than is done today on Wall Street."

Esokait prefers to downplay his personal influence. "Our ratings are a committee decision." But Wall Streeters say that Esokait plays the decisive role at Moody's.

Both Moody's and S&P's ratings consist of nine basic categories ranging from triple-A to C. While the lettering system varies slightly, the categories are considered comparable. Thus the fourth-highest category (Baa for Moody's, BBB for S&P's) is generally regarded as the lowest category of investment-grade bond. A bond with the fifth rating (Ba and BB) is considered to be speculative.

Part of bond rating involves reading

the fine print in the prospectus. The rating service must know the legal standing of the bondholders in the case of bankruptcy or the conditions under which interest might not be paid. Thus a company such as Texas Power & Light can have some of its bonds rated Aaa while others are rated Aa. For example, after the Penn Central bankruptcy, all PC bonds plunged, but some much farther than others: Some issues still sell at more than 30 cents on the \$1 while others sell for 12 cents or 15 cents.

The bulk of the job is analyzing the company itself, particularly the balance sheet. Every bond rating will normally involve at least the calculation of fixed-charges coverage, the debt-to-equity ratio, working capital position and current ratio. But, says Esokait, bond-rating "is not a numbers game. You couldn't rate bonds on a computer. It would blow a gasket. Bond-rating is a comprehensive analysis of the position of a company in

Esokait of Moody's



Fraser of S&P's



whatever industry it is in." Thus, the typical bond rating, like a stock rating, includes a look at the industry's growth potential, the company's earnings projections, and the caliber of management.

"Al, My Buddy"

Partly because a bond rating hinges so much on judgment, Esokait is courted by treasurers and company presidents, mayors and governors. "Every company thinks they are a triple-A," says Esokait. "But what we are particularly interested in is their ability to meet contractual obligations during times of stress. Most companies don't realize that you are not only looking at them now, but further down the road. So many companies are disappointed with their ratings."

Esokait says that he will meet with companies that are unhappy with their ratings "as much as four or five or six times. They come after you with every conceivable form of pressure," he adds. Normally the pressure is quiet. Occasionally it hits the headlines, such as in 1965 when Moody's downgraded the City of New York's municipal bonds from A to Baa, leading New York City Finance Administrator Roy M. Goodman to later charge that: "The whole municipal bond rating system, now carried out largely by these two private agencies, is a horse-and-buggy system in a jet age."

Downgrading bonds is not common. "You are striving for a stability in the ratings," says Esokait. "You don't change ratings on a change in the business cycle. You change on fundamentals." So far this year Moody's has upgraded about five corporate bonds and downgraded about 27. Most often the reason for the downgrading, says Esokait, is that the company has taken on additional debt. That is the principle reason why Duke Power went from Aaa to Aa, and J. C. Penney from A to Baa.

But other factors can cause a bond to be downgraded. Moody's downgraded International Minerals & Chemicals bonds from Ba to B partly because of fundamental problems in the outlook for phosphates. S&P's lowered Youngstown Sheet & Tube's rating from AA to A in June, partly because of lower earnings. In May it took the highly unusual step of downgrading a Jones & Laughlin bond two grades, from A to BB. "We were amazed at the rate of deterioration of the balance sheet," says H. Russell Fraser who heads S&P's corporate bond department. "We were concerned about the dividends and, with Ling-Temco-Vought in the picture, about the continuity of management. We saw operational problems that

the experts didn't see any solutions to. The easy thing would have been to rate it triple-B and then later downgrade it to double-B. But our rating is for the benefit of the investor."

In the case of Penn Central, S&P's had rated some of its bonds BBB or higher-investment grade. The ratings weren't changed until May when S&P's reviewed the new bond issue. Some criticize S&P's for this. Fraser defends it: "Until you read the prospectus there was no tangible evidence that anything was wrong. You can't anticipate these things."

Despite their differences in age and experience (Fraser is only 29 years old and has worked at S&P's for just 3½ years) there are similarities between Esokait and Fraser. Neither attended big-name schools. Esokait went to Pace College in Manhattan at night. Fraser attended Orange County Community College in upstate New York for two years and then went on to graduate from the University of Arizona. Both fill their offices with manuals and bookcases instead of antique coffee tables or comfortable sofas. Both work in nondescript buildings in a drab no-man's land of factories, government offices and small businesses midway between the flashy uptown corporate office buildings and Wall Street's plush firms. Neither will admit to feeling that he has been bypassed by the surging interest in the stock market during the Sixties.

Two Eras

But Esokait is nearing retirement age and Fraser is not yet 30. So as Esokait exudes ancient wisdom and seasoned judgment, Fraser seems more inquiring, more aggressive. Esokait prefers not to discuss the S&P's ratings. But Fraser and others at S&P's are willing to question a Moody's rating. For example, S&P's rated Gould

BBB and Union Oil AA while Moody's rated them both A. "How could you give Union Oil, with its operating record, its larger size and its considerably greater asset protection, the same rating as you give Gould?" asks Fraser. Moody's rates Lockheed's bonds, but S&P's stopped rating them in June. "When you don't know all the facts, you can't rate them," says Fraser. Generally, however, they agree though Wall Streeters say that Esokait seems to rely more on balance-sheet figures while Fraser is more apt to question the earnings outlook.

There are other differences. Moody's will not rate finance companies. S&P's does. This year S&P's began to rate commercial paper. Moody's has no plans to (though another D&B subsidiary, the National Credit Office, is still smarting from the embarrassment of its rating of Penn Central commercial paper as prime up to the day of the road's bankruptcy).

Both agencies have their critics. Some feel that there should be additional ratings; that two ratings concentrates power too greatly. Others question how effectively either agency can monitor a company once the original rating is made. And that Moody's refusal to rate finance companies places too much power in S&P's.

To this, both services answer that there are literally thousands of bond issues to rate and that a service that brings in only peanuts in relation to the billions it rates cannot be perfect. Neither Moody's, a subsidiary of Dun & Bradstreet, nor S&P's, acquired in 1966 by McGraw-Hill, is estimated to be highly profitable.

To their credit and despite all these handicaps, no one has ever accused the bond rating services of being anything but objective and honest. Which is more than anyone can say about some Wall Street recommendations. ■

Interest Rates: Esokait vs. Fraser

WHICH way will interest rates head? Moody's Esokait and S&P's Fraser differ markedly when it comes to the outlook for the bond market. Says Esokait: "I think yield on quality bonds hit their peak in June." Fraser emphatically disagrees. "We have not yet seen the highs."

In late 1969 Esokait had forecast that interest rates would rise, then decline to about 7% on double-A utilities by the end of 1970. Now he is less certain. "What has upset my thinking is this tremendous financing volume. I didn't think that virtually every company in the U.S. would become concerned with re-

funding its short-term debt. That's why it is now impossible to be bullish about the bond market."

Fraser, in contrast, is downright pessimistic about long-term rates. He, too, emphasizes the tremendous volume of corporate and municipal financing that lies ahead. In addition, he predicts that many mutual funds, now large bondholders, will dump their bonds if the stock market starts rising. And that much of the current financing is medium term and may have to be refinanced in five to seven years. "I think interest rates on a double-A utility will be 9.5% to 10% by the year's end," says Fraser.



Heavy, Heavy...

There's trouble ahead for copper. How serious? It depends on who you ask.

ALL DURING the last half of the 1960s U.S. copper producers rolled in profits, the result of a worldwide shortage and a near doubling of prices. In the first part of 1970 it was more of the same. For the first six months Kennecott weighed in with a spectacular 58% increase in earnings per share. Inspiration Consolidated and Phelps Dodge were not far behind, with 51% and 47% gains, respectively. The only exceptions were Anaconda, down 21% because of the Chilean takeover of its mines there late last year, and Copper Range, up *only* 17% because of problems at its White Pine, Mich. mine during the second quarter.

Yet recently with a suddenness that generally lurks in a politically and economically volatile worldwide commodity such as copper, the metal's lustrous outlook has become tarnished. Big customers have pulled back from the world market and supplies everywhere are rising rapidly. Result: The price of copper on the London Metal Exchange has plunged from nearly 80 cents a pound last spring to less than 60 cents. In the U.S. the drop has been less but only because prices never went up so far; U.S. companies traditionally sell copper to their domestic customers at lower prices when world prices get too high. The U.S. price is down only from 60 cents to 56 cents.

At a 56-to-60-cent price, of course, no one need shed tears for the copper companies; they can make very good money at those prices. It is said, for example, that companies like Anaconda and Kennecott can produce their copper domestically at just 28 cents a pound. Even after nonproduction costs and taxes, that leaves a lot of room for profit. The question, however, is one of trend: What happens if the downtrend continues? After all, copper sold for just 38 cents a pound as recently as 1968. Moreover, production costs are rising, large new mines are being brought into production and potentially troublesome labor negotiations loom just ahead. The next six months to a year will tell whether the tarnish turns into profit corrosion.

Certainly the factors that have kept the London Metal Exchange price so

high are changing. It was reportedly bid up by shortages and the stockpiling of copper-short nations like Japan, China and Russia from around 32 cents a pound in 1964 to as high as 90 cents a pound early in 1966. The so-called U.S. producer price, while lower (out of producers' fears of substitution of other metals for copper and later by pressure from the Johnson Administration) in the last few years, however, has been raised from under 40 cents to a peak of 60 cents.

Stockpiling, not Shortages

The world shortage that propelled the LME price upward appears to have ended. Demand has slackened dramatically. Russia, which only a few years ago was importing 80,000 tons of copper annually, has developed its own sources in Bulgaria and Poland to the point where it has become a net exporter. Japan has contracted for and discovered enough copper of its own to satisfy its needs at least through 1975; in fact, the Japanese recently announced plans to export 20,000 tons of surplus copper. China, too, has reportedly stockpiled to the point where it is no longer a major buyer on the world market.

Simultaneously the big non-U.S. copper-producing nations—Chile, Peru, Zambia and the Congo—have been stepping up their production and development of new mines (*FORBES*, Mar. 1). Now that they have expropriated the operations of foreign companies they are determined to wring as much foreign exchange out of them as they can. These CIPEC nations, as they are called, are predicted to boost production by 40% through 1975. All of which means rising supply at a time of slackening demand.

In the U.S., too, there are problems. One, of course, is the recession. Another would be the end of large consumption for the Vietnam war. At the same time, in a reaction to the expropriation of their mines in Chile and Peru, U.S. producers are making large additions to their domestic capacity. This year, for example, Anaconda is bringing in a new 96,000-ton-a-year mine at Twin Butte, Ariz., and another 13,000-ton mine at Berkeley, Mont.

Phelps Dodge is adding 38,000 tons of capacity at Tyrone, N.M. Large new Canadian facilities are also being added this year. Warns a recent report by the Federal Reserve Bank of San Francisco: The U.S. copper industry alone could have "well over a million tons of excess capacity by 1972" with no allowance for an end to hostilities in Vietnam.

Copper men themselves are divided over just what effect these developments will have on the U.S. price and their own profits. Charles E. Schwab of Anaconda replies: "For the near term things look good; I don't think there will be an oversupply for some time to come, if at all." In fact, he thinks that stockpiling before next year's labor negotiations in the copper industry will increase demand. American Smelting & Refining's Charles F. Barber, however, thinks that the economy's recessionary trend will ease demand and metals prices. "With the continuing rise in production costs, a squeeze on the profits of metal producers may develop," he warned stockholders several months ago.

Warns Hendrik S. Houtakker, a member of President Nixon's Council of Economic Advisers and head of a special committee studying the U.S. copper industry: "There is a huge copper surplus overhanging the world market which I think will take some time to work off. You see it in the London prices and now here. Unless there is some political disturbance in Chile or other copper-producing nations, I think the price will continue to go down at least until the end of the year. After that a recovery depends on what happens in the upcoming labor negotiations and whether users start stockpiling for it."

The last union settlement, after a violence-marred, nine-month strike in 1968, resulted in a 6% annual increase in wage levels. The copper companies will be lucky to come away from the bargaining table next year with anything less than a 10%-a-year increase.

About the only ones happy with the current turn of events are the copper-fabricating companies, such as General Cable and Scovill Mfg., who have had to buy a lot of their raw copper at the inflated LME price.

By and large, the industry is keeping its fingers crossed. The long-range outlook for copper demand is nothing short of terrific. But there could be a very scary year or two in between. ■

Creeping Capitalism

Conservatives, don't despair! Creeping capitalism may help save us all from the progressive deterioration of public services.

BEFORE our very eyes, many of the things urban Americans have long taken for granted are deteriorating: police and fire protection, garbage collection, postal services, public schools. As state and local taxes mount, people are paying more for their services and getting less.

So, increasingly, in many urban areas, business and well-to-do private citizens are making their own arrangements for police protection, garbage collection and even education. They are, without quite realizing it, reverting to an earlier style (*see box, p. 28*).

This turning to private business for public services is not a matter of money, for these things are expensive whether paid for through taxes or directly. The even bigger and more disturbing question is this: Giant bureaucracies lack the discipline imposed by the profit motive. Can they deliver the services in an acceptably efficient manner in our confused and complex society? Can the police any longer really police, the educators educate?

Even the liberals, traditional advocates of big government, are beginning to wonder whether private enterprise

may not be able to do a better job than government. They are becoming advocates of creeping capitalism.

FORBES last month broached the subject to Daniel P. Moynihan, the Nixon Administration's resident liberal and top social thinker. Said Moynihan: "I wouldn't be the least upset [about private business taking over some government functions]. Who knows? We might just be getting back to a market response to a problem."

A Beginning

The market response already is under way, at least on a limited scale.

Thomas Mackel is a big-city district attorney. In a typical working day as district attorney of Queens County he can call on the armed might of New York City's 30,000-man police force to help him bust rackets or fight crime.

At night, his home and those of his neighbors in Douglas Manor get their protection from a patrol car and guards hired through a local company that protects people for a profit.

It's not just an isolated trend. The security industry itself claims that two

out of every three law enforcement officers in the nation are actually on private payrolls. Of the 800,000 private officers, about 500,000 are uniformed. On top of this are untold thousands of corporate employees who have been hired as full-time fire chiefs within industrial plants or who have been trained as either full-time or part-time fire wardens within both industrial and commercial buildings.

Management experts looking into the little-studied, highly fractionated field of protection believe that some \$1.6 billion was spent by the private sector last year with another \$400 million going for protective fire and criminal alarms. Outside security services—trained for criminal, fire and now riot duty—are appearing at normally unguarded premises and, in many cities, are actually walking a beat like a patrolman.

On a typical block of big corporate headquarters buildings in Manhattan, for instance, it's possible that perhaps 20 different private police forces are working at any one time.

And not just in New York. In California the official who licenses private



"We're Not Doormen." These New York policemen are protesting assignments to guard foreign diplomats in New York. This kind of duty, a far cry from normal

police work, is straining the city's already strained police force. One solution: "user charges" on the U.S. State Department to pay for this special duty.



Crime Pays. Today's man on the beat may fight crime not only because it's his job but because he's a stockholder in a profit-making private police force. No longer is the security guard just an old retiree at the plant gate. "We have street knowhow," says IBI Security's Jack Mallon who has structured his company—complete with neighborhood station-houses—as a miniature of the New York Police Department from which 20 of its middle managers have been recruited. Fighting everything from muggers on up is becoming big business because urban corporations want to keep their customers and their employees from fleeing to the suburbs. For the first time, reports New York's respected Regional Plan Association, the headquarters type of city may be in economic danger. "Slowly this erosion of public services is causing corporations to take another look at expanding within the cities," reports the private planning group's Sheldon Pollack, adding: "Maybe we're reaching the point where large companies will move away—then we're really in trouble." From Manhattan, many already have.

investigators for the state confesses: "Regular police would have to curtail their normal activities too much to meet the demands of business enterprise." There are now 375 private companies in the field—in California alone.

The problems of public education are so well chronicled they scarcely need repeating. As a consequence of these troubles, private schools have boomed and their enrollment doubled since 1960. Thus, more than a few citizens are paying twice for education: once through taxes, again through private school fees. In an effort to improve public school education, many communities are turning to private corporations, including some of the U.S.'s biggest. Thus more people are turning to private education at the same time as the public school systems are turning to private business for help.

It's not widely known, but there are even a handful of well-organized companies around the country that fight fires for a fee.

The Fiscal Facts

It seems inevitable that this trend toward the private operation of public services—creeping capitalism—is going to accelerate.

Here are some startling facts of fiscal life: Just to keep our cities op-

erating at the present clumsy pace has been figured as a trillion-dollar proposition for the decade running from 1966 through 1975. Given the best of economic conditions, the cities can only hope to raise \$760 billion. And this is at a time when the tax revolt is spreading. As William G. Colman, a widely respected urban consultant, told the Chamber of Commerce of the U.S. somewhat disdainfully: "The American political landscape is strewn with the governors, legislators, mayors, councilmen and county commissioners who have committed suicide at the polls by raising taxes in order to do what had to be done." (Ex-Governor Terry Sanford of North Carolina has a name for them: "tax-loss governors.")

Not much help will come from Big Daddy in Washington, who has his own troubles.

How about revenue-sharing, the proposed process whereby Washington would split some of its tax revenues with states and localities? The current Administration is a strong believer in it. But the Administration is talking a few billion a year, not nearly enough to bring municipal services up to snuff. Even if the bi-partisan Muskie-Goodell proposal on revenue-sharing could be passed before Congress adjourns, an almost impossible prospect, the cities would be receiving less than one-tenth of the amount they need to keep their books balanced and their services operating.

"Without some revenue-sharing measure soon, the day may rapidly come when citizens will be required to police their own homes, fight their own fires, dispose of their own garbage and repair their own water mains," warns Senator Charles Goodell, the New York Republican.

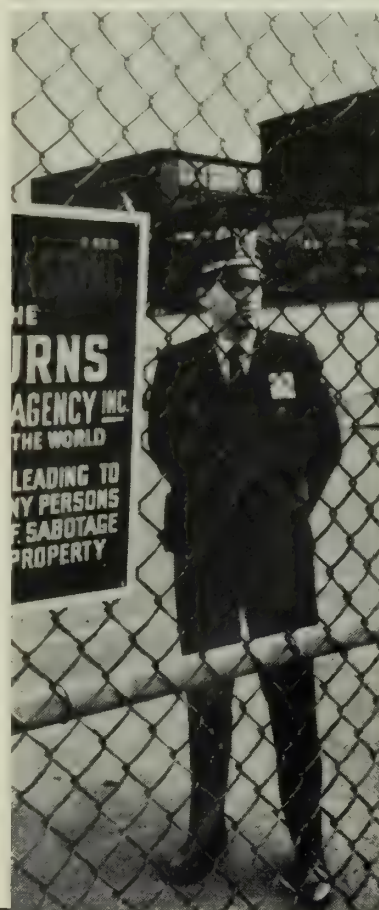
While Congress fiddles, warns a financial expert for the National League of Cities, Peter Harkins, many cities have come to the end of their fiscal rope. "It's almost an unheard-of idea, but last year we began hearing of some cities facing bankruptcy."

Why are the cities so broke? One reason: They bear the bulk of the nation's welfare cost; the rural poor have flocked to the cities.

Simple justice would suggest that the Federal Government thus should bear the entire welfare cost. But meaningful welfare reform is dead this year despite all of the Nixon Administration's high-powered efforts.

So it's no longer a question of "What is private business doing in public services?"; rather, it's the much blunter question: How else is the job going to get done? How else is urban society going to hold together?

"Once you set up strict performance standards and institute service charges



for things like refuse collection and sewage," points out the International City Management Association, "private handlers can compete and provide better service than the city can."

In garbage collection alone this is happening in such widely different places as Seattle, San Francisco (backyard garbage collection: \$1.85 a month) and in such affluent suburbs as Montgomery County, Md. San Diegans face that right now. "In some areas we'd gone to two, three and even five pickups a week," says San Diego's Mayor Frank Curran, "but come August the one, we cut back to once a week all over the city. And if they want more, they're going to have to go and contract for it on the outside. We just don't have the money."

Looking at the national picture, a professional city manager, Lawrence Bagley of Oceanside, Calif., says: "I can see two areas where fairly soon we could see private services taking over more of the public services: waste disposal and fire protection. In firefighting what we are faced with in the community is an awful lot of standby time. City fire departments tend to run a lot on tradition, whereas the private fire companies do not."

The Nixon Administration's chief liaison officer with the nation's police departments definitely feels that business must be required to do more on its own. Says the associate administrator of the Justice Department's Law Enforcement Assistance Administration, 41-year-old Clarence M. Coster: "For years we [city officials] have been setting fire standards, haven't we? And we've been going around requiring people to install four-inch drains for sewers. It's about time we did the same for police. When someone wants to put up a new building we have to say to them 'By God, it'll be a secure building with alarms and protection or you're not going to get your building permit.'"

Private Police

When he was a police chief in Bloomington, Minn., Coster even went a step further. "Bloomington was sort of the home of the sports industry in that part of the country—we had the Twins and the Vikings. So the city made a very hard political determination. We were going to charge these people for their use of police services. Thus the city became a private contractor for police labor, charging the companies \$6 an hour for a man's services. This can be extended. When you've got a man whose sole job is directing traffic in front of a department store you've got to say: 'Hey, you people are generating the traffic, so you pay.'"

an easy step to the use of private policemen.

Obvious beneficiaries of the undeniable trend toward private protection have been the Big Three of the private police field: Pinkerton's, William J. Burns and Wackenhut Corp. These three publicly owned corporations take in about half of the security field's revenues. Pinkerton alone, with 23,000 employees, is believed to be the largest nongovernmental police agency in the nation.

New competitors, however, are springing up. Three years ago this month a small private police outfit started in the unlikely spot of Jamaica, Queens. Its founders were two retired

detectives, Harold Shields and Thomas A. Clare, who were soon joined by John C. Mallon, a lawyer and labor editor of New York's *Daily News*.

Their outfit, dubbed IBI Security Service, Inc. ("Because it sounded good, like IBM"), had revenues in its first fiscal year of \$526,000; it expects to hit \$4.5 million for the fiscal year ending this month.

Bangor Punta, a \$334-million conglomerate, in recent years has made almost half of its profits from the security field, mainly because of its acquisition of one of the best-known names in the field, Smith & Wesson.

Early this year it signed on William G. Barry, a 15-year veteran of the FBI, former New York City patrolman and lately vice president of Bankers Trust Co. The 43-year-old security expert is no oldtime cop. He was a close associate of the late Senator Robert F. Kennedy. Barry is president of newly formed Smith & Wesson Security Services. He says: "Law enforcement is stretched so thin, the police are occupied with people protection rather than with asset protection."

Firefighters as well as crimefighters are going private. Actually, there is a strong precedent for private profit-making companies to get into the fire and protection business. On the fringes of New York in Bayway, N.J., for instance, seven big industrial concerns have banded together to form the Linden Industrial Mutual Aid Council. A leader in the drive is the Esso refinery there which maintains its own fire engine and professional crew of 12.

The epitome of private enterprise in firefighting is Chief Lou Witzeman of the Rural/Metropolitan Fire Department, who has been fighting fires for profit for 22 years now. Witzeman's corporation covers a 400-mile beat in Arizona and provides the fire protection for cities ranging from Scottsdale with its 66,000 population down to Litchfield Park with its 6,600 residents. Two weeks ago he extended his network to take in Yuma and Nogales. "Going national is easily achievable." Says Witzeman, "Why, we could provide service for anywhere from \$2.82 to \$5 a head in most cities if they let us come in and start our company operations from scratch."

Police and fire and garbage aren't the only problems. There's the postal service. It has taken at least a decade of talking to make the first move toward modernizing the Post Office, that archaic, politically dominated Federal department that has the most to do with providing vital daily services to every American business. The Post Office will be set up as an independent government agency where theoretically, at least, by 1984 the new United



Fire Sale. Cities can shop around even when it comes to firefighting. In Arizona, one-sixth of the population is protected by a company that does it for a profit and may gross a million dollars by 1971 with 200 employees.



Sweet Business. Between tight municipal budgets and the environmentalists' war cry, many a beleaguered city manager is turning the clock back on services such as the private garbage pickup that now covers over half—perhaps two-thirds—of the nation's urban areas.

It's typical of the public service that's going private. "There's been a rather uncritical acceptance of demands from cities," insists Caspar Weinberger, Washington's chief budget-cutter, who's "a great believer in revenue-sharing but as a substitute for federal grants."

States Postal Service could be paying its own unsubsidized way.

However, it's not widely realized, but any time a vital government service is put on a businesslike basis, the streamlining actually bolsters its competitors in the private sectors.

And the Post Office does have some competitors.

Every morning at 3 a.m., a small fleet of private planes converges on a Philadelphia airstrip where the pilots swiftly swap half a billion dollars worth of checks, vaccines, valuable legal documents and expensive bits of scientific and industrial devices. Smugglers? No, just American Courier Corp.'s men fighting rain, snow, heat and gloom of night in the swift completion of their appointed rounds.

The 20-year-old company will take in about \$46 million this year (up from \$32 million in 1969) from its basic business of swiftly hauling those objects that businessmen don't want to entrust to the old Post Office.

On a more localized basis, small firms that used to make their living as in-town messenger services or as distributors of free samples door-to-door in residential neighborhoods have been cashing in on the fact that as the mail mounts, the system bogs.

When the postal service raises rates by 20% to 30%, the private-mail pickup or delivery firm should find itself in an even better spot.

The situation in education is acute.

As demands for more and better education increase, productivity and efficient public education decline. Many public schools today are little better than baby-sitting services for bored adolescents. The result has been a huge demand for private education. Many a middle-class family already is stretching its resources to the breaking point to keep children in private schools.

Graduation vs. Education

The private schools, too, have a financial problem. Even with fees for day schools running as high as \$2,000 a year and \$3,500 and more for boarding schools, they run heavy deficits.

Attempts by big corporations to enter the education field have been a great disappointment, mainly because teaching machines were regarded as the ultimate solution. But business is still trying. One promising development is the "performance contractor." For a fee he'll take over remedial classes in your local schoolhouse or an entire district if you'd like—as will be done in Gary, Ind. starting this month.

Teaching kids for a profit is a logical outgrowth of all those remedial programs that American industry finds itself saddled with as it attempts to improve the basic skills of its workers.

The idea of bringing outsiders from a teaching corporation into a typical

school system started modestly enough in 1969 and this year could be a \$30-million-to-\$50-million business. The biggest push to date came last month when the Office of Economic Opportunity granted \$6.5 million to six companies to get them to upgrade the education in 18 school districts around the nation.

Westinghouse Learning Corp. will be working in Las Vegas, Philadelphia and Fresno, Calif., for instance, while in New York City, home of what used to be regarded as one of the finest free school systems in the world, a Bronx school district will be hiring a company from Georgia, the Learning Foundation, Inc. Other grants are going to Alpha Learnings Systems, Plan Education Centres, Singer Reflex and Quality Educational Development.

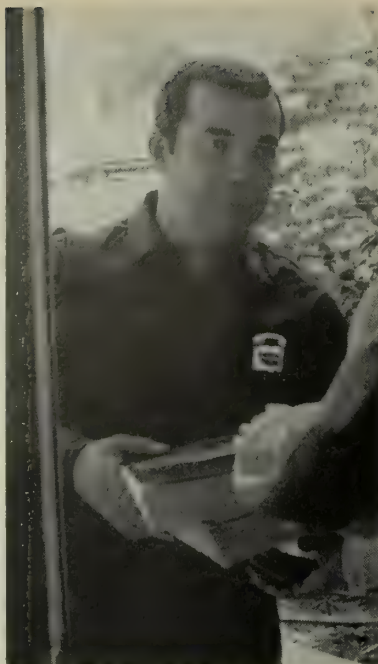
In Cherry Hill, N.J., a middle-class suburb of Camden, Singer Co. is opening its first Singer Learning Center this month. The facility will have over 200 students, mostly pre-school and kindergarten. Singer hopes to start another Learning Center this year, and is looking for other sites.

Five years old in November, General Learning Corp., after a near-disastrous start, is beginning to get its feet on the ground. A jointly owned affiliate of Time Inc. and General Electric Co., General Learning is turning its hand to a variety of practical education projects. Among them: training Arizona Indians for new jobs; devel-

oping the master plan for a new community college in New Jersey.

Meanwhile, corporations themselves are trying to live up to their community commitments and to provide themselves with workers who can be trained for something more than lifetimes of pushing a broom. In many cases the Department of Labor is picking up the tab—from \$1,700 to \$2,700 per man—for a remedial program that may last from two to six months. James McGoy, chief of special and combined projects for the OEO in Washington, recalls: "When I was a training officer at Hercules, Inc., nothing was done that didn't produce a specific skill. Now the companies have found out that if a man can't read well, he won't be able to learn to use a new machine." Best example: Steel mills switching to continuous casting discovered a lot of workers with seniority were passing up promotions because they couldn't handle the new spots. Now with a \$1-million federal grant, most of the Big Eight steelmakers are running basic literacy programs.

Even in transportation, where the trend has been toward public owner-



Snarl. Frustrated by deteriorating Post Office service, more citizens and businesses are turning to private postal services such as this one.

ship for 50 years or more, there is a sign or two of creeping capitalism. Look at John J. Gilhooley, the former Assistant Secretary of Labor under President Eisenhower and later head of New York City's perennially ailing Transit Authority. Last month, Gilhooley, a 49-year-old lawyer, announced that he was forming Urban Industries, Inc., to take over sickly bus lines throughout the country.

Gilhooley's first dramatic move: For \$29 million in cash he intends to pick up the \$80-million-a-year, but barely profitable line, Public Service Coordinated Transport Co., which operates buses in most of New Jersey and runs the Newark subway. It's presently owned by the New Jersey Public Service & Gas Co.

Gilhooley's acquisition is a substitute for government takeover and could start a trend. "The Government," Gilhooley says, "needs us as a buffer between the unions and public officials. I know labor and I know government. I negotiated rail strikes when I was at Labor, and I bargained four times with Mike Quill—then head of the New York City Transit Union. I think I can handle the situation."



School For Sorters. Private workers are being trained for unheard-of tasks these days, including sorting and delivering the mail, formerly a strictly governmental

function. Because public education is so bad in many areas, the new businesses often have to teach some employees the basics as well as the job itself.



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As the bird flies.

Rent a Falcon.



Gilhooley is, of course, a trend-bucker. Even as he is bringing private enterprise into mass transit, the Federal Government is moving to take over rail passenger service, and states and localities are taking over commuter lines. But even here, there is more than a little creeping capitalism amidst the apparent move toward socialization: In most cases, the governments are not going to run the services themselves; they will contract with railroads to run the trains.

Nowhere Else to Turn

Too much optimism about the benefits of creeping capitalism would be dangerous. What private businessmen have done to date in these fields is insignificant and full of disappointments; thousands of private outfits

supplying private guards, a few tentative steps toward improving educational results and a new entrepreneur in the bus business hardly add up to a major contribution. Still, there may be nowhere else to turn, because the cities have neither the money to do the job nor the incentives to provide efficiency. Furthermore, where services break down, business itself will be the biggest loser.

But what of labor? The Seventies will be a seller's market for the laboring man. Just to achieve the presently outlined social priorities, the National Planning Association figures that 100 million workers will be needed during this decade. That translates into a shortage of 10 million workers, many of them in the high-paying construction field. Meanwhile municipal

workers won't be standing still. Newly militant cops, firemen and sanitation workers will be showing they share more than ideology with their hard-hat neighbors. Summing it up best is John Cassese, the fiery New Yorker who now heads the first national police union. He's out to duplicate his record with the New York's Patrolman's Benevolent Association when he pushed hard until wages doubled in a decade.

One thing is certain. For better or for worse, the century-old trend for steadily increasing government-provided services has about run its course. All this could end in collapse and chaos—or in greater efficiency of public services. Along with Vietnam, campus unrest and inflation, this could well be one of the greatest challenges our society faces today. ■

The Good (?) Old Days

Do you ever long for great-grandpa's time when taxes were low and all the governments in the U.S. put together spent under \$1 billion a year? Well, consider this: In those days, you probably would have had to keep pigs to get rid of your garbage (ever try feeding a disposable soft-drink bottle to a pig?); if your horse was stolen, you might have had to grab a gun and go after it yourself; you'd pick up your mail yourself at the Post Office. If you were especially well-to-do, you'd certainly have to hire your own guards and watchmen.

Not until 1863, for example, did the U.S. offer free city mail delivery, and this in only 49 localities. As recently as 1916, 20 U.S. cities of more than 100,000 population still got rid of their garbage by feeding it to pigs.

Public services as we know them today are a fairly recent development. There were rudimentary fire and police and highway departments in 17th-century England, but the laissez-faire 19th century saw the trend reversed: The rich tended to provide their own services; the poor did without.

Ironically the poor staffed these services, making them into the greatest growth industry in history—and into fine middle-class jobs.

In a sense, many of our cities have been drifting back to such a situation: The well-to-do hire their own services or escape to the suburbs; the less affluent make out as best they can. Faced with the unfairness of this situation, some city officials are all for saying to business: Pay directly for the services you use so that tax-supported per-

sonnel can be used to serve the general public.

White House aide Daniel Patrick Moynihan puts it like this: "Back in the last century, there was a big debate about the role of the police. Should they be forced to go out and recover your property? The public attitude was: 'Well, he stole *your* horse, not mine, so you go out

and get him.' If we again move toward private services, we might have the same situation again. If the trend goes too far it's hell for people who can't pay." Which, of course, is *already* true of public schools in many areas: The well-to-do send their kids to private schools, the ordinary citizen makes out as best he can.





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The Mop Gap

**Did Missouri Pacific's B shares earn \$301 a share last year, or only \$11?
That's the crux of the long struggle for control of this rich railroad.**

WILLIAM G. MARBURY, the plain-speaking St. Louis financier and chairman of the Missouri Pacific Railroad, must feel as if he's on one side of a pushmi-pullyu out of *The Story of Dr. Dolittle*. On the other side is that stubborn New York holding company, the Alleghany Corp. Inside such a two-sided creature, Marbury has to be pretty agile these days to avoid the pushes coming from behind.

It used to be Marbury who did all the pushing. He feels he controls the Mop—a nickname he likes—through 62% of the line's 1.9 million Class A shares held by his Mississippi River Corp., a much smaller pipeline and manufacturer of cement. Alleghany holds 52% of the 39,731 Class B shares. The divided ownership was created by the Interstate Commerce Commission when the Missouri Pacific emerged in 1956 from 23 years of bankruptcy. Class A was supposed to be in the saddle since the Class B holdings made

up only 2% of the capital shares.

But when Marbury tried in 1963 to wipe out the Bs by merging the Missouri Pacific into an 83%-owned subsidiary, the Texas & Pacific Railroad, he was frustrated. Allan P. Kirby, Woolworth heir and then chairman of Alleghany, went to court asking that the Bs be allowed to vote separately from the As. Marbury fought hard, but the Supreme Court upheld Alleghany's claim, giving it a broad veto power over the Missouri Pacific.

The defeat also caused Marbury to lose heart in his pursuit of the Santa Fe. He'd dreamed of putting the midwestern Mop together with that western road, creating a 25,000-mile system. And in 1966 Mop was Santa Fe's biggest shareholder, owning some 8% of the voting stock, which had been picked up for \$33 million. With the Bs hanging over his every move, Marbury withdrew his merger proposal. That voting stock has now turned

into Santa Fe Industries debentures, valued at \$16.6 million. Mop expects to sell them and forget the dream.

Squeeze Play

But the Alleghany Corp., for its part, isn't forgetting a thing. Its investment in the Mop goes back to 1929 when Cleveland's Van Sweringen brothers took control with an \$80-million interest of stocks and bonds. Alleghany may have its mind mostly on its Investors Diversified Services, the U.S.' largest mutual fund network, but its heart is in the Missouri Pacific. Therefore, the present chairman of Alleghany, Fred M. Kirby, who took over in 1967 from his father, Allan Sr., continues to press in on Marbury. Alleghany has already maneuvered out of St. Louis and into the New York federal courts a B shareholders' suit that seeks a "reasonable dividend."

What's reasonable? Well, after paying the \$5 A dividend, Mop's earnings last year amounted to \$301 per B share. A pay-out rate of even one-third would come to \$100 a share. (The rarely traded B shares recently were quoted at \$825 in the over-the-counter market.) By Alleghany's interpretation the B shares—what was left of the pre-bankruptcy common stock—are the true equity, the A shares a kind of preferred stock; all the earnings, after payment of the \$5 A dividend, would belong to the B stockholders. But Marbury, naturally, disputes this interpretation. In his interpretation, both classes of stock represent the company's equity, and, therefore, the earnings attributable to the B stock came only to about \$11.40.

When Marbury was pushing to build up the Mop in the early 1960s, he didn't worry much about the Bs. "The B stockholders have got a billy but only a little one," he once said. But now he talks softly. "I guess it's been a good deterrent having the Bs," he says. "For one thing, the division has limited the Class A dividend to \$5. So there's been no pressure for more there, and we've been able to build up the road." He has even gone out of his way to invite Fred Kirby on to the Mop board. And he says he's ready to talk about a compromise solution that would join A and B together.

"Sure, we smile when we talk with the Missouri Pacific these days," says Clifford H. Ramsdell, Alleghany vice president. "But Mr. Kirby has turned them down flat on the directorship. I

(Continued on page 35)



Going My Way? Financiers have tugged opposite ways on the Missouri Pacific Railroad about as long as that unusual animal, the pushmi-pullyu, has amused readers of *The Story of Dr. Dolittle*. Most persistent is the Alleghany Corp., which controlled the midwestern line before the 1933-56 bankruptcy and is still pushing for an equity position.

(Continued from page 30)

"Don't think it would look too good aesthetically while a court suit is on." Alleghany may especially be interested in its Mop investment after the Penn Central bankruptcy. Some 96,000 shares of Penn Central were traded off, but Alleghany still holds 100,000 shares of that virtually worthless stock. Plenty of reason not to let your holdings in another railroad get out of hand. Alleghany's investment in Mop, marketable at \$825 a share, would be worth \$17 million. In the height of the 1968 bull market, the B shares were worth \$2,500 a share, or \$51 million, about what the Van Sweringens paid for their original common stock interest in the old Missouri Pacific.

But the Kirbys may sense some fresh advantages, too. For one thing, Downing B. Jenks, 55, the Missouri Pacific's president, is becoming more of his own man. Marbury wooed him in 1961 away from the Rock Island, where Jenks was president. Since then, he has taken \$600 million of Mar-

bury's capital and built the Mop into a good railroad. The line has begun tapping a Chicago outlet through its acquisition of the Chicago & Eastern Illinois Railroad. And its renovation, drawing a balanced freight load of chemicals, manufactured goods and grains, has run revenues up from \$378 million in 1961 to \$495 million last year. Marbury is hardly ever seen around the St. Louis headquarters of the Mop these days, and Jenks runs the road with a sure hand.

Executive Suite Shuffle

Early last year, Marbury brought in Jenks also as president of parent Mississippi River Corp., which has been ailing and relies on Mop dividends for half of its net income. Just before the Penn Central went down, Marbury suddenly assumed the title of president again, along with chairman, and Jenks went back to the Mop altogether. "These are difficult times," says Marbury. "They've got enough problems over there, and we have ours

here. Mr. Jenks can keep very, very busy running the Missouri Pacific."

Both men deny any personal falling out. Jenks says he expects that "Bill Marbury will be associated with this railroad for a long time to come." But Jenks also calls Fred Kirby "a friend. Of course, we're interested in what Alleghany has to say. They're one of our most important stockholders."

A full-fledged takeover of the Mop by Alleghany is a doubtful prospect. Alleghany, for one thing, is in the process of turning itself into a motor carrier, by acquiring the Jones Motor Co., to escape taxation at personal holding company rates. And Investors Diversified Services is the key concern.

A Washington lawyer, expert in rail matters, doubts, however, that the ICC would stand in Alleghany's way because of a small trucking company if it wanted to swallow the Mop. "Besides," he says, "everyone always knew Alleghany would come out with the money in this deal." Maybe. But don't tell Marbury that. ■

Seesaw

Tariffs and quotas work both ways: What helps one industry can badly hurt another.

AS GRASSHOPPERS follow a drought, trade protectionists pop out whenever the economy slips gears. In 1930 they got their tariff-boosting Smoot-Hawley law. Now some industries, and their unions, are after Congress for quota protection against rising foreign imports. Don't worry about trade reprisals from overseas, they say, because exports count for only 4% of the U.S. gross national product. Others, however, are not so sure: The backlash as foreigners raise their trade walls could be widespread, indeed.

Some industries already are searching out vulnerable areas by using a modern economic method called input-output analysis. Input-output builds a computer model of the inter-industry flow of goods and determines their ultimate impact. One analyst, Milton L. Godfrey of Cybermatics, Inc., a New Jersey systems firm, has used input-output to uncover a hidden world of trade effects.

Godfrey's ideas are a hard slap in the face to threatened U.S. industries that are currently lobbying for protection. It offers scant comfort to those workers who are being laid off because of competition from imports. What it says to them, in effect, is: In protecting you, the U.S. may be hurting its bigger interests.

Godfrey's arguments center on the fact that imports that hurt U.S. interests in some ways may actually ad-

vance U.S. interests in others. Corporate planners usually just look at the surface effect. The textile industry, for example, which has battled for import quotas, figures its exports make up only about 5% of total revenues. Domestic sales, therefore, are important and are to be protected. But how about the denim for the American Levis that Japanese teenagers love to wear? Some of the denim sales to the makers of Levis are an indirect export. Shouldn't they be counted, too, when weighing the importance of overseas markets? In short, what might help one part of an industry, could badly hurt another.

Who's Protected?

In 16 key U.S. industries, Godfrey's computer readout shows, for each dollar of direct export sales there is an average of another \$1 of such indirect exports. The gap is even wider in the textile industry. During the fourth quarter of 1969, textiles recorded export sales of \$262 million (an annual rate seasonally adjusted). But indirect export sales were \$747 million. The industry, in fact, notched a total of \$3.85 in total export sales for each dollar of direct sales. "People have been counting items as domestic sales that really aren't," Godfrey complains. He cites such items as steel that goes into tractors for overseas and fabrics in exported cars. "If trade retaliation for

quotas is coming, perhaps the protectionists ought to look first at the export markets of their U.S. buyers. Sellers, too. If we protect the apparel people, won't they be affected if the Japanese hit our cotton?"

The glass industry is screaming for some protection from the flood of Belgian flat glass entering the country. But exports containing glass, such as lighting fixtures, move briskly. In 1969 for every dollar of direct glass exports, there was \$1.38 of indirect exports. In the petroleum industry, oriented to the U.S. market, indirects amounted to over \$4. For the protectionist-minded steel industry, the figure is \$4.18.

The same analysis, based primarily on government figures, can focus on something a little closer to the pocketbook. Many industries, Godfrey argues, are more dependent on international sales than they think. Take the aluminum industry, which showed sales of around \$6 billion and forced ingot price increases of 5.2% as the economy swung downward in 1969. Direct export sales made up only 7.7% of sales, he says, but direct and indirect exports together accounted for 20.5%. Domestic income barely inched ahead, but the total package of export sales spurred forward some 12.3%. Will such arguments have much force with Congressmen whose constituents are being hurt by imports? Probably not. But Godfrey does have a point. ■



Who Needs 'Em?

Without the banks, how could commerce flourish? Well, Ireland has been bankless for months now, and . . .

U.S. BANKERS keep talking about the checkless society. Ireland already is one step ahead of them. The land of the leprechauns has become the bankless society. On Apr. 30, as a result of a labor dispute that even the Irish consider a monumental example of plain pigheadedness, every bank in the country, except the branches of the Bank of America and the First National City, locked its doors; and the bankless society was born.

Americans, to whom banks are as much a necessity of life as TV, may wonder how the Irish economy has managed to survive in the weeks since. The answer is, surprisingly well. In fact, there are those who believe the bank shutdown may be good for the economy. This is the view of the Irish Research Organization. Like the rest of the world, Ireland has been riding the inflation merry-go-round. Prices were up 8% last year, wages were up 13%. By restricting certain types of credit-mortgages, for example—the bank shutdown may have slowed the merry-go-round down a bit. The operative word is *may*.

Some businesses are suffering, of course, suffering badly. The real estate business is way down. The auto business, too. The Dublin stock exchange, which even on its most active days resembles nothing so much as a club for elderly gentlemen with the gout (*FORBES*, Aug. 1, 1969, p. 35), now looks more like a tomb. On the other hand, some businesses are booming, Securicor, especially. Securicor is Ireland's Brinks. Store managers, who take in a lot of cash during the day, are afraid to have it lying around. Securicor will collect it and keep it for them—at a price.

The worst complaint one hears about the shutdown is, "I find it a bit of a nuisance." A cab driver tells a passenger: "I wouldn't mind if the banks stay closed forever. We drivers buy on the H-P [the installment plan],

and usually pay through a bank. No banks, no payments."

Some of the Irish are having a ball. The banks may be closed, but people still have checkbooks; in fact, just before the shutdown there was a run on the banks for checkbooks. Most pubs and stores will accept checks from almost anyone, even Switzers, Dublin's largest department store. The Gaiety Theater keeps checks on hand for those who have run out. Many businessmen prefer checks. Explains a U.S. Embassy official: "I recently bought some furniture. I said, 'I can pay you in a dollar check, a pound check or cash. Which do you prefer?' He said, 'Anything but cash. Having it around makes me nervous.'"

So Ireland has become the spend-thrift's heaven. A man can buy anything and write a check for it, even though he may not have a shilling in the bank. The seller can't deposit the check, so why not write it?

Sure, when the banks reopen, there will come a day of reckoning, but meanwhile, lads, let's have another.

The cash there is in the country circulates like water in a fountain. Some workers are paid in cash. Their employer goes to the pubs, fish-and-chips shops and greengrocers and gets the cash for their wages in exchange for a check. The workers are paid and spend the cash in the pubs, fish-and-chips shops and greengrocers and their employer goes to . . . etc.

Not all the businessmen in Ireland prefer checks. There are those who demand cash—but they pay their bills with checks. They then fly to London or Belfast with the cash and deposit it, at 8.5% interest. They are doing what a bank does—using other people's money to make money.

"Like my boss," says Richard Theodore Knight, a middle-aged elf from Sligo. His boss, Kevin Mooney, who runs SCR Sales, Inc., which buys and sells second-hand machinery, laughs.



"I know a man who owns a car agency," he says. "This man sells three or four cars a week, takes in maybe £6,000. He's afraid of being robbed. So I do him a favor. I give him a check for the money, go across the border and deposit the money in a bank. It takes me a couple of hours, and I'm getting 8.5%."

Mooney adds: "I have no use for a businessman who can't find a way to make a pound, no matter what."

The genesis of the shutdown was a



Increasing Liquidity. Unflappable Dubliners (far left) lined up last April to draw checkbooks. They knew a bank strike was coming. And it did, with a quiet latch-



ing of doors (left, above). But no crisis occurred. One of many new clearinghouses for cash and checks is seen above, the snug and sometimes tuneful Irish pub.

demand by the Irish Bank Officials Association, the union that represents the 7,000 employees of the nation's 900 banks, to renegotiate the contract they had. The Irish Banks Staff Relations Committee, which represents the banks, rejected the demand. They forgot they were dealing with Irishmen. The union ordered its members not to work after 4 p.m. no matter how much paperwork had piled up. The union forgot it was dealing with Irishmen. The banks cut the pay of their employees by 25%.

Now you just can't treat an Irishman like that. The union's response was really to slow down. Not only did the banks themselves become clogged with unfinished paperwork, so did the clearinghouses. Ah, well, how would one expect the banks to respond? They shut down.

This didn't faze the employees a bit. To begin with, you can't push an Irishman around. Quite aside from that, there are jobs aplenty in England. Although unemployment in the United Kingdom is the highest in 30 years, there's an insatiable demand for certain types of workers—typists, secretaries, clerks, bookkeepers, waitresses, barmen. An estimated 3,500 of the unemployed bank officials (nearly everyone who works in a bank in Ireland is called an official) went to London, which is only 55 minutes away by air. The union set up a special office at Mooney's Irish House in the Strand to help these expatriates find employment, lodging and friends. After London newspapers quoted employees of Mooney's as saying the bank officials were more rowdy than

dock workers, the union moved the office to a pub called The King's Arms.

Not only have all the expatriates found jobs; according to John Titterington, organizing secretary of the union, they're earning on the average about twice as much as they did back in Ireland. A visitor to The King's Arms finds them quite happy. "The English have been very hospitable," says one. "Of course, I've got to spend Christmas with my folks, but I'll be quite happy to stay here until then."

Those who remained in Ireland also seem to have found jobs, quite a few with Securicor.

Days of Reckoning

A government committee, the Labour Court, has agreed the bank officials should get a 17% wage increase retroactive to Apr. 1, and it has also recommended a new wage scale for junior officials retroactive to Dec. 1. The union is not satisfied. It believes its members should be paid for all the weeks the banks have been closed. Titterington insists this is only right because, he says, the officials did not strike, they were locked out. In a referendum, 93% of the members supported this position.

The government isn't applying pressure on either side to have the Labour Court's recommendations accepted. Says a government official: "If you use my name, I'll deny I ever laid eyes on you and, besides that, wherever you are, I'll come to strangle you with my own two bare hands. The fact is, we don't mind if this shutdown continues for a while. Wage increases recently have been averaging 15%, and prices

have been rising at a rate certain to reach 10% by the end of the year. Productivity has been going up only 4%. This shutdown may cool things."

Again, the operative word is *may*. In 1966 a bank strike lasted for 16 weeks. When it was over, the nation discovered that credit had expanded by 13%. (This happened because, in Ireland, if a man writes a check without funds to cover it, the check automatically becomes a loan, paying 9.5%.) No one can say with certainty the shutdown is deflationary; it could prove inflationary.

Once the shutdown ends, problems of fantastic complexity will arise. The banks and the clearinghouses will face a Himalaya of paperwork. A man will deposit checks totaling more than enough to cover checks he has drawn. If the latter are registered before the former, he'll be down for an overdraft and charged 9.5% interest. The Battle of the Boyne will seem a tea party to what might happen.

There is a danger, also, that, instead of merely cooling the economy, the bank shutdown may freeze it. Importers already are having problems. British and American companies are getting tired of shipping them goods without being paid.

"Oh," says businessman Dickie Knight, "you Americans worry too much. That's why you die of heart disease and cancer and the like. Ireland has always been a poor nation, so what's to worry about? Come to Sligo, boy, and I'll take you fishing. You'll stop worrying and live a good bit longer."

Not a bad idea. ■

Precarious Payouts?

MORE companies are cutting or omitting their dividends these days. In this year's first half, 106 companies lowered their payout vs. only 46 in the same period of 1969; 108 eliminated dividends entirely vs. 37 in 1969's first half. As corporate profits decline, more companies are bound to follow. Who? The table below shows some that are at least vulnerable: companies with losses

or sharply reduced earnings that are still paying dividends; or those paying very large dividends—say, to two-thirds or more of current profits. With borrowed money expensive and hard to get, many boards will certainly look to conserving cash by cutting payouts. Once cut, don't look for a quick resumption. Only 25 firms resumed dividends vs. 39 in the first half of 1969. ■

Company	Annual Dividend Rate	Latest Earnings Per Share	Payout Ratios		Recent Price	Yield	1970 Price Range
			Recent	5-Year Average			
American Crystal Sugar	\$1.40	\$0.80	175%	55%	17	8.2%	26 -15 1/8
American Hoist & Derrick	0.70	0.84	83	48	10 1/4	6.8	15 7/8 - 9 5/8
American Seating	1.00	1.53	65	56	15 3/4	6.3	24 1/2 - 14 1/2
Amsted Industries	2.40	3.28	73	54	28 5/8	8.4	39 1/4 - 24 1/2
Armco Steel	1.60	2.67	59	53	19 3/4	8.1	29 1/8 - 19 1/2
Beech Aircraft	0.75†	d3.69	—	NC	9 1/2	7.9	19 1/4 - 8
Bendix	1.60	2.54	63	42	21 1/2	7.4	34 3/8 - 20 1/4
Bethlehem Steel	1.80	2.82	64	48	21 1/8	8.5	30 5/8 - 21 1/8
Braniff Airways	0.50	none	—	NC	8 1/8	6.2	11 1/2 - 6 1/4
Budget Industries	0.64	0.74	86	56	6 3/4	9.5	19 - 6 3/4
Chrysler	0.60	d0.47	—	42	19 1/4	3.1	35 3/4 - 16 1/8
Commercial Solvents	0.40	0.45	89	72	16	2.5	34 1/2 - 15 3/8
Cone Mills	1.00	1.11	90	54	15 3/8	6.5	17 7/8 - 13 1/8
Cooper Tire & Rubber	1.00	0.84	119	48	15 1/4	6.6	20 5/8 - 12
Curtiss-Wright	1.00	0.93	108	79	11 1/4	8.9	18 7/8 - 10 1/8
Deere & Co.	2.00	3.30	61	47	29 1/4	6.8	45 3/4 - 28
Del Monte Corp.	1.10	1.50	73	48	21 1/4	5.2	26 1/4 - 16 1/2
Dravo Corp.	1.40	2.13	66	39	23 3/4	5.9	36 1/2 - 23
ESB	1.20	1.80	66	58	17 1/8	7.0	25 1/2 - 17
Federal-Mogul	1.80	2.35	77	67	22 5/8	8.0	27 1/4 - 20 1/8
Goodrich, B. F.	1.72	2.00	86	58	23	7.5	34 - 19 3/4
Grace-W. R.	1.50	1.64	92	48	23 3/4	6.3	28 3/8 - 20 3/4
Hammond Corp.	0.70	1.13	62	53*	8 1/4	8.5	16 3/8 - 7 1/4
Inland Steel	2.00	2.76	72	57	23 3/8	8.5	29 1/4 - 22 3/4
Kaiser Cement & Gypsum	0.80	0.91	88	77	17	4.7	26 1/2 - 16 1/4
Kelsey-Hayes	1.30	1.74	75	37	17 3/8	7.5	30 - 15 5/8
Leonard Refineries	0.60	0.71	85	47	10 1/8	6.0	14 3/4 - 8 3/8
May Dept. Stores	1.60	1.72	93	67	17 1/8	9.3	28 1/4 - 15 1/2
MCA	0.60	0.11	—	26‡	14	4.3	25 3/4 - 11 3/8
Mead Corp.	1.00	1.09	92	53	13 3/8	7.3	21 7/8 - 11
National City Lines	0.90	1.19	76	26	10 1/2	8.6	17 1/4 - 10 1/4
National Gypsum	1.05	1.08	97	79	18 1/2	5.7	24 1/2 - 14
National Lead	1.70	1.89	90	72	20 3/8	8.3	28 - 16
Pan American Sulphur	0.80	d0.06	—	57*	9	8.9	16 1/4 - 7 1/8
Pennwalt	1.20	1.49	81	49	21	5.7	36 1/2 - 17 1/8
Potlatch Forests	1.00	0.99	101	37	29 1/8	3.4	39 1/4 - 23 1/8
Pullman	2.80	3.76	74	62	34 3/8	8.1	48 1/4 - 34
Republic Steel	2.50	3.78	66	46	29 3/8	8.5	37 3/8 - 28 1/4
Riegel Textile	0.80	0.84	95	44††	12 1/4	6.5	15 1/2 - 10
Russ Togs	0.68	0.97	70	39	11	6.2	17 7/8 - 9 1/8
Springs Mills	1.00	0.83	120	—	13 5/8	7.3	17 - 13
Stevens, J. P.	2.40	2.84	85	42	27 7/8	8.6	44 7/8 - 26
UAL	1.00	0.37	—	33	15 7/8	6.3	28 3/8 - 12 1/2
UMC Industries	0.72	1.03	70	48	9 7/8	7.3	19 1/4 - 9 1/2
US Steel	2.40	3.47	69	54	29 3/8	8.1	39 1/2 - 29 3/8
Universal Oil Prods.	0.80	1.20	67	42	21 7/8	3.7	36 3/4 - 21 1/8
Vendo	0.60	0.88	68	30	11 1/2	5.2	17 1/8 - 10
West Point-Pepperell	1.40	1.99	70	58	20 3/4	6.7	24 5/8 - 16 1/4
Zenith Radio	1.40	1.46	96	53	31 3/8	4.5	37 3/4 - 22 1/4

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Two-Front War

The truce in the Middle East may be good news for the big U.S. oil companies, but, meanwhile, they have a pretty rough war at home.

FOR LONGER than they care to remember, the big U.S. gasoline marketers like Texaco and Shell have had to tolerate a nuisance—the so-called independent gasoline company. Going under such brand names as Deep Rock up North, Seaside out West, Spur down South, they sell gasoline for 2 cents or so a gallon cheaper than the major companies.

The small independents could undersell the giants and still come away with a profit. They could do so by keeping their costs down (no repairs, no credit, no advertising) and by doing a big volume. If cut-rate operators started to get too big a share of the market in any one area, the majors would do some price-cutting of their own. But the majors' concern for their return on investment and for the trustbusters in Washington have made them refrain from a total-war policy that would drive the little guys out of business. (In fact, the majors have actually helped to keep the price-cutters afloat by selling them their surplus gasoline.)

In recent years, however, the independents have been making greater inroads into the \$20-billion (retail) U.S. gasoline market than ever before. Their share of the business in 1969 was up to 25%, according to Lundberg Survey of Los Angeles.

European Front

One big reason: For the past five years the majors have been at best half-hearted in competing with the independents on a price basis. With oil-product prices in Europe deteriorating, the major internationals became more concerned about U.S. gasoline profits and less concerned about meeting every price cut by every independent. In some areas, therefore, the spread between the majors' price and the independents' price became still greater.

On top of that, gasoline buyers had become more price-conscious. They increasingly came to suspect that gasoline is gasoline—whether advertised nationally or not at all. Then, soaring living costs and a surge in sales of foreign-made compact cars increased the demand for low-priced gasoline.

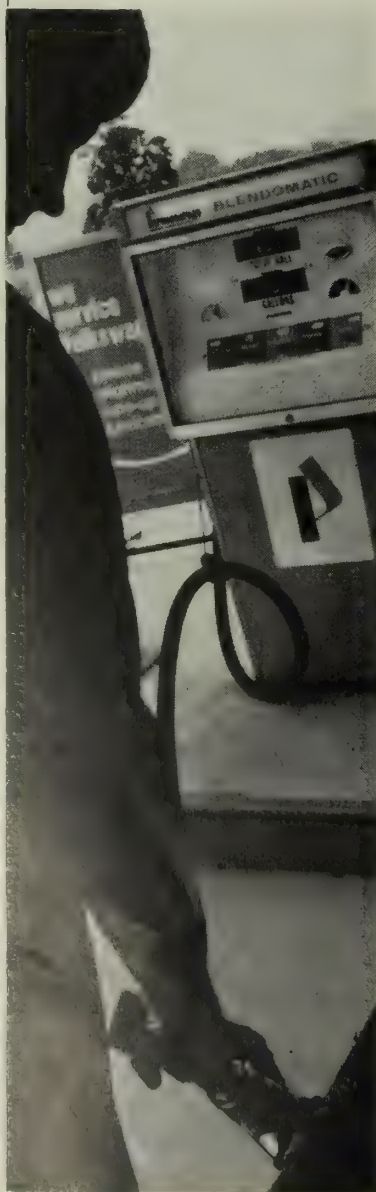
Attracted by the trade, big newcomers are moving into the cut-rate gasoline business on their own. Sears, Roebuck, for example, now pumps low-price gasoline at 600 of its car repair centers, Montgomery Ward at 82 and J.C. Penney at 160. Many

supermarket companies—a notable one is Supermarkets General's Pathmark chain in New York and New Jersey—are opening gasoline stations and not necessarily just as loss-leaders for their food stores.

Increasing the pressure on the majors even more, the independents are leading the trend to self-service stations, which are able to sell gasoline at still another 2 cents a gallon less than the majors.

No wonder that a top executive of a major oil company exclaims: "The

Penney Pete? That's right. J.C. Penney and Sears also offer gas to motorists dropping in to buy other items.



independents are merchandising us right off the map. They have lower costs. They have good locations, but not fancy, and a clean image. They don't spend much on promotion. They're keeping the price level down and making our return on investment highly unsatisfactory. I don't know the solution."

To which Henry A. Rosenberg Jr., president of Crown Central Petroleum, an independent in the East and South, adds with cocksureness: "I don't know what the majors can do to stop us. We do a terrific volume. Our stations are clean. We don't do any repair work. Look, women buy a lot of gasoline. They don't want some mechanic coming up to their car, just barely wiping the grease off his hands and then washing their windshields and pumping their gas."

The simple way for the majors to fight is to do what they have done in the past—cut prices themselves. But it's not that easy today. If anything, the majors' profits are under even greater pressure than they were in 1965. European prices are still low, tanker rates for carrying oil out of the Mideast are soaring to unprecedented levels, long-term debt and interest charges are mounting. Shell Oil, meeting the challenge head on, has been more aggressive on price lately, but look what happened to its first-half earnings: down 23%, the worst performance of any of the majors.

... Join 'Em

What tactics *can* the majors take to ward off the independents' thrust? Continental Oil may have one answer. It has been in the cut-rate business itself through separate affiliates for some time. Now it is expanding those businesses. Continental now has 526 Douglas stations on the West Coast and 484 Kayo stations in the East. That adds up to 1,010, or 19% of the company's total stations.

Lion Oil, which is owned by chemicals producer Monsanto Co., though small (annual sales: \$73 million), has been able to sell at "major" prices in six southeastern states for years. But in the last two years, feeling the price-cutters' pressure, Lion has dropped prices at about 20% of its outlets to "independent" levels.

Playing the cut-rate game yourself is fine for Continental, Sun or Phillips, but the game is pretty well closed to the biggest of the majors, Humble, Texaco, Shell, Mobil and Gulf. The

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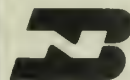
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BURLINGTON NORTHERN

Going places in the American West

Big Five have stations all around the nation. They more than likely would run into legal problems if they sold their gasoline at one price through one of their old dealers and sold the same gasoline at a lower price at a new cut-rate station down the street. Continental has been able to avoid this problem. Its major-brand stations are in the midcontinent area and don't compete with its cut-rate Douglas and Kayo brands.

Gulf has tried for many years to meet the cut-rate competition by selling a "sub-regular" gasoline (minus some additives) at a third pump in its stations. Continental, Sun and Skelly have done the same. And others among the Big Five may finally follow Gulf's lead, too. As one gasoline marketer, who asked not to be identified, says: "Shell is installing third pumps in order to get ready for no-lead gasoline. What's to prevent them from using that pump for sub-regular gasoline between now and the time they have to have no-lead?"

Some majors are experimenting with one self-service island at their stations. They're competing with themselves, of course, because the price at the self-service pump is 2 cents below the price at the other bays when the gasoline is pumped by an attendant. There could be some legal problems here, too, because the majors' self-service stations may be undercutting their old dealers in the area.

Selling gasoline for less, the majors have to become more cost-conscious. Many are building new stations only on a few superhighway sites. At the same time, they're weeding out marginally profitable stations.

As the majors become more like independents, it's not surprising that the price-cutters are finding it necessary to adopt some of the tactics of the majors. More independents, for example, are advertising and giving out



Women's Lib, 1932. Mary Hudson founded a cut-rate gasoline company with her brothers in Kansas City, Kan. 38 years ago. She now runs Hudson Oil Co. alone. Says a male competitor: "I've never seen a tougher man in gasoline marketing. I remember when one big company went after her once in Kansas City and Topeka. She brought them to their knees. She can keep up with you on everything, language included." At 57, Mary Hudson shows no signs of slowing up. "The future looks good," she says. "We're seeing more price wars this year, but I have been through some rough spots before."

credit cards. (One independent notes that people who charge gasoline are less concerned about the price of it than cash customers.)

Where do the trends lead? "There are too many stations selling high-priced gasoline," answers one marketing man. "The lower-priced stations obviously are going to grow until there's a proper balance between each type of station."

Interestingly enough, in these times of trouble for the major oil companies, several of the independent oil companies, some of which aren't so small anymore, are expanding. Hess, an eastern refiner-marketer, for example, has merged with producer Amerada to form a \$900-million (sales) integrated company. Champlin Oil, another refiner-marketer with inadequate supplies of crude, has been acquired by Union Pacific, which is a giant-sized oil producer in addition to being a railroad. Tenneco and Ashland both have built their annual sales to the \$500-million level and now have more financial strength to do battle with the majors. Clark Oil & Refining, a big Midwest refiner-marketer, now has \$270 million a year in sales and enough resources to go exploring for its own crude oil.

And many already fairly strong independents are being acquired by still stronger companies outside the gasoline business. Husky Oil (assets: \$270 million) is talking merger with \$2.2-billion-assets Santa Fe Industries. Bell-Vickers, an independent Southwest refiner and marketer, has been acquired by Swift & Co. Swift is diverting dollars from marginal meat operations to acquire a crude oil producer and build an integrated oil outfit.

Clearly, it's a time of ferment in the oil industry. When it's all over, the big international companies may no longer have things as much their own way as they did in the past. ■

Poor Lil' Ole Me

THE MAJOR gasoline companies and their smaller independent rivals play a game when they talk about each other. It's called Pat the Other Guy on the Back Until You've Beaten Him into the Ground. The idea is to make the other guy sound so ferocious that all third parties will automatically gravitate to your side.

Keeping that in mind, listen to Ronald J. Peterson, chairman of Martin Oil Service Inc. of suburban Chicago, talk of the "plight" of the cut-rate gasoline companies:

"The independents (I mean the small ones; Ashland and Tenneco are too big to be called independ-

ents) make 1 to 2 cents profit on every dollar of sales, the majors make 9 to 13 cents. They make their profit on crude, and have cash flow and tax advantages that we don't.

"Price protection keeps the independents' share of the market down. The majors keep cutting the price to their own dealers to meet competition while the independent is buying at a fixed price.

"Mergers of refiners have hurt us. We got along when 25 or 30 refiners were knocking on our door to sell us gasoline. We used to buy from Sunray DX, but since the merger with Sun Oil, that supply

has sort of dried up. Would we get into refining ourselves to assure a supply? There's no profit in refining. Why invest \$150 million to get into it? Besides, where will a \$5-million or \$500,000 organization get that money? We all must change, but getting into refining on a break-even basis isn't the way.

"But don't write me down as a pessimist. I want the independents to get rights to imported oil. If the government forces refiners to produce no-lead gasoline, it will have to provide that a percentage of it will go to independents. I just think it's time we started to speak up."

The Money Men

The Consumer and the Investor Are the Same Guy

LAST February we interviewed poll-taker Louis Harris for "Money Men" and wrote of our quest for somebody "who has really done anything worthwhile on the psychological forces that lie behind the movement of stocks." Harris, we found, was thinking along the same lines but had as yet no conclusions.

Shortly thereafter, we got a letter from a reader, an interesting letter. What it said was that the writer, one John L. King of Huntington Beach, Calif., an investor and college teacher, had indeed developed such a theory of investing, a psychological theory. "I would say your search is over," wrote King, "not with Louis Harris but with me." King claimed he had called the market decline of 1966 well ahead of time and had foreseen the extent of last year's decline as early as April 1969. He did not use a crystal ball, he said. He had a system, one based as much on behavioral psychology as on economics.

We acknowledged the letter, whereupon we received another in which King further outlined some of his beliefs and decried the conventional economic wisdom. At the close of that letter, King promised another to follow with a prediction of the markets in the months ahead.

Now predictors of the stock market are as plentiful as house flies in July. Most we've seen make a very cautious estimate of the direction they think the market will take and then proceed to qualify that into meaninglessness. But, good as his word, John King wrote to us again on Mar. 30 saying, "I am finally able to get all of my data together, and my estimate is that the DJI will come close to 675 by mid-July." King's only qualification was that precipitous bad news could send it even lower.

The Dow was nearing 800 when King wrote that letter and a convention of investment experts the month before had seen the market generally holding to such levels. Many smart investment managers had begun committing reserves they had been building up in late 1969 and early 1970. King proved

to be righter than most of the card-carrying experts. The shock of U.S. troops going into Cambodia sent the market reeling in May. On July 8 the Dow was at 682, right on target. A rally followed, but not enough to put King's prediction more than 5% off on July 15.

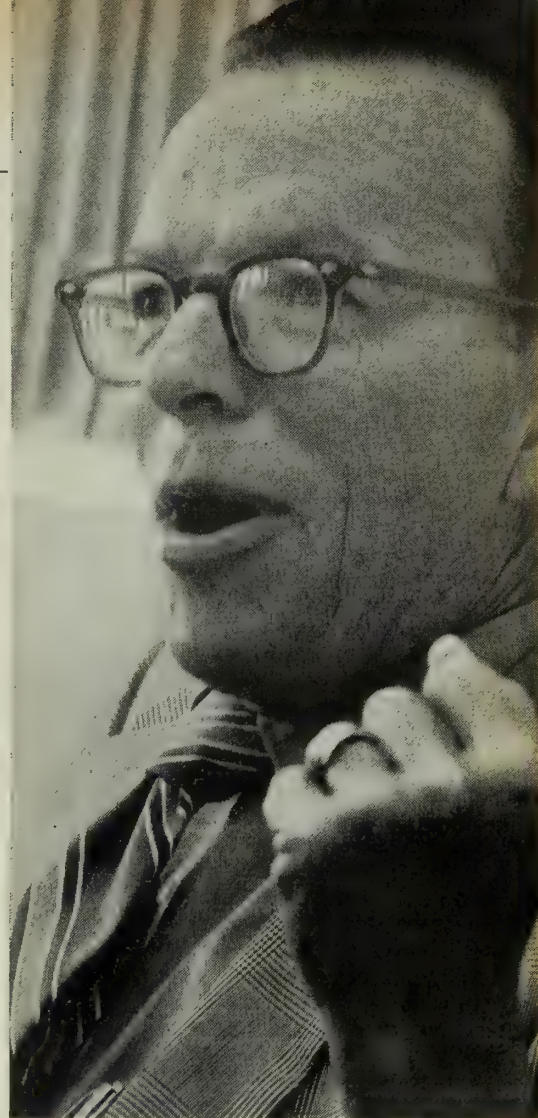
True, John King does not have any very impressive credentials. He heads no brokerage firm, manages no vast sums of money, boasts no notebook full of press clippings. But he had been righter than most of the credential bearers.

Impressed, we invited King to visit our Los Angeles office. Far from looking like a man in command of mysterious clairvoyant forces, John King introduces himself as Jack and speaks with a professorial air—understandable since he teaches economics and money & banking at Los Angeles' Sawyer College. The day we met him he wore a checked sports jacket and looked less than his 53 years. He sprinkles his conversation with references to books on economics—testimony to a life of voracious reading as well as an education at the University of Pennsylvania's Wharton School of Finance and Commerce (Class of '38). But King mentions well-known economists only in order to cite what he considers to be their shortsightedness. As with many captivated by an idea, King views the authorities as confused, himself as clear-eyed.

"One thing is critical," King declares. "The consumer's attitudes and expectations about the future are, I think, crucially important to the stock market as well as to business. A lot of people disagree, but I don't care what a lot of people think because I have yet to predict the market in error."

King's system does not have any truck with charts. Neither does it involve what are usually regarded as "fundamentals"—earnings trends, P/E ratios, you-name-it. King, instead, regards psychology as supreme. He thinks that the same forces that have so much effect on retail sales also have a huge effect on stock prices.

King's system, we were to learn over the course of a two-hour conversation, relies heavily on the University of Michigan's index of consumer sentiment. Fittingly, King thinks, Michigan's Survey Research Center, which publishes the index quarterly, is run by George Katona,



John L. King

an unusual man. Dr. Katona is an economist, yes, but he is also a trained psychologist.

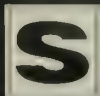
"The thinking of traditional economists," says King, "is that we're 200 million people and that means if I say 'yes' you're likely to say 'no' and we cancel each other out. But, in truth, when it comes to money, these things add up; they don't cancel each other out. A guy in Santa Monica, California, is just as likely to feel depressed economically as a man in Burlington, Vermont. In the aggregate this is a powerful tool. This turns on the society or turns it off." (For more on this, see "Sidelines," p. 7.)

That consumer attitudes reinforce each other has been common knowledge to advertising men for years. Interestingly, King spent almost three decades in advertising after graduation from Wharton in 1938, selling space. During all that time he remained fascinated by economics, especially economic forecasting. Katona's surveys, which

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The Money Men

stressed the importance of the consumer's psychological *willingness* to buy as well as his economic ability to buy, struck King as eminently sensible. So he tried to put the consumer sentiment index together with such economic indices as levels of credit, interest rates and such, and come up with a master number that would correlate with movements of the stock market. It didn't work.

But then a statistician friend helped him find a relationship between his weighted average master number and the Standard & Poor's 500 stock index. He won't explain his previous formula—and who can blame him—but it began, he said, to flash a warning signal. As King explains it: "In 1965 I had what they call in behavioral psychology an 'ah hah' feeling. In August of 1965, the consumer turned very negative." For his family's trust fund, King liquidated holdings and went cash in February of 1966. "In February of 1966," says King, "the stock market turned down and from February to October of 1966 the market fell around 17%."

Impressed with his own success, King quit advertising and turned to teaching. (He also teaches a marketing course at California State College, Fullerton.) And he took his weighted average and tried to apply it against previous turns in the market of more than 15% to see if it would have worked. This exercise, though academic, showed him that his variables would have signaled all but one of the seven severe market declines between 1956 and 1966 and would have given warning of all the subsequent upturns. (The one that got away was, however, a whopper, the 1962 market slide of 27%.)

In the current market decline, which can be traced to December 1968, King admits to missing the first few months but catching the signal in April 1969 before the full impact of the crash began. Fortified by his success in practice, King plans to manage other trusts owned by his family in Arizona.

If the reader is human, he is probably getting a bit impatient and wondering when we're going to get to the point: What does King think the market is going to do now? Bear with us. We're getting to that. First, more about how King arrives at his conclusions.

To begin with, King is scornful of the current economic forecasts that say the economy is bottoming out and an upturn is just around the corner. He thinks such forecasts are not in touch with the thinking of the people. "One of the great beliefs of economics," he says, "is that the average guy spends ahead because he believes prices are going higher. This is ridiculous. That only exists in the minds of economists." King feels quite the opposite is true: that inflation scares people and, whether it is economically rational or not, when people are scared they begin to save money. Which means they don't buy stocks either.

We knew that the personal savings rate had hit a 20-year high during July of this year. Whatever a high savings rate may say for the future, it can be hell on companies trying to move merchandise right now. The same psychology that makes people afraid to spend probably also makes them afraid to buy common stocks. King suspects that this scared psychology is going to continue.

"The economists say we've got inflation under control. The thing they don't have under control is the service businesses. The cost of services is accelerating and we spend most of our money for services. The economists focus on how many cars are turned out at the Ford plant, but who focuses on the nurse's aide who lifts a bedpan or the cost of an attorney's time?"

"We're talking total demand really," he says, "Mr. McCracken [chairman of the President's Council of Economic Advisers Paul McCracken] may be talking of an upturn in the fourth quarter, but the consumer is not. The consumer is thinking depression."

With that explanation, we'll get to our point: Jack King thinks the stock market is going down, a good way down. And fast. "I'm very turned off," says King. "The consumer is very negative today. I expect the DJI to be at or about 575 by early October."

Well, there it is. We can't vouch for Jack King's predictions, but we think he is worth listening to. He's one of the few people we know who has made a genuine attempt to quantify investor psychology—something everybody talks about but nobody does anything about. ■

Let's Drink to That!

Here's a worldwide growth market where entry is difficult and one company has 70% or so of the business. No, we're not talking about IBM but about Britain's Distillers Co. Ltd.

OPERATING out of a headquarters building built in 1774 and facing St. James Square in London, the men who run Distillers Co. Ltd. (no relation to Distillers Corp.-Seagrams) like to convey the impression that they are 19th-century gentlemen who through happenstance are forced to engage in commerce. Ask them about their market share, for example, and the room temperature drops about 40 degrees Fahrenheit. As *FORBES'* London correspondent puts it, you feel you've been caught spitting on the antiques.

But don't be fooled. Under Chairman A.F. McDonald, a big, burly Scotsman, Distillers Co. Ltd. is a very up-to-date marketing machine. The gentlemen at Distillers Co. know their market share to a decimal point, while they won't say what it is, the trade estimates it at 55% to 60%. That's a nice piece of a very nice market—especially since only Scottish distillers can call their product scotch.

What do you drink? Johnnie Walker? That's a DCL whisky (sales in the U.S. last year: more than 1.75 million cases). Dewar's White Label? Another DCL whisky (U.S. sales: 1.65 million cases). Haig & Haig? Black & White? White Horse? Vat 69? Crawford's? They're all DCL whiskies.

Lose Some, Win Big

None of them, however, are marketed in the U.S. by DCL. In a sense, DCL loses by this: The distributor ends up with a large chunk of the profit. But DCL probably gains a lot more than it loses. By cutting every major distiller into the distribution of its brands, DCL guarantees that these big distillers are pushing DCL brands rather than developing their own. In effect, these canny Englishmen keep competition out by cutting the competition in. Says a DCL spokesman: "This is our practice all over the world, not just in the U.S." Why? Skirting the question of cutting the competition in, he puts it this way: "They know the market better than we do. And since they distribute other products, they can distribute ours with less overhead."

Though it's scotch that makes DCL shareholders tingle and glow, the company has not overlooked the martini drinker. High & Dry, Gordon's and Booth's are DCL gins. Cossack is a DCL vodka. DCL also makes Australian whisky and Australian brandy.

Not only does DCL dominate the scotch market, it's the largest distilling



DCL's carefully cultivated image is of leather, mahogany and gentlemen's clubs, but it's also among the sharpest marketing outfits around.

company of any kind in the world. Sales in fiscal 1969 amounted to \$917.8 million, of which \$836.9 million came from whisky, gin and vodka. The largest distiller in North America, Montreal-based Distillers Corp.-Seagrams Ltd., rang up sales after subtracting excise taxes of \$599 million last year. Moreover, DCL is easily the biggest profitmaker in the world liquor business. It netted \$125 million before taxes, 15 cents on the sales dollar. By contrast, Distillers Corp.-Seagrams netted just over 7% pretax.

DCL can be, and is, a very hard-nosed competitor. Over the past few years, for example, it has steadfastly refused to raise prices, despite increasing distilling and marketing costs and higher taxes. The reason has become apparent this year. In April, two of its independent competitors, Teacher's and Bell's, finally raised prices. DCL still held back, however, and almost

overnight its market share in England jumped from around 60% to 70%.

Having accomplished its goal, DCL last month announced that it, too, was raising prices. The increases aren't that large in percentages—a couple of pennies per shot for whisky. But spread over DCL's huge volumes, they will be substantial. The increases won't come until Oct. 1. Which gives retailers an incentive to stock up now and promises to help make DCL's market-share gains permanent.

DCL's origins go back to 1877 when six Lowland grain distillers, several of them a century or more old, combined to form the company. As the years went by, other distillers joined the combine. At the same time DCL kept on building new distilleries. It now operates some 42 in Scotland.

Its Own Terms

DCL is still reaching out its tentacles, unhampered by the antitrust restrictions that must concern dominant companies in American industries. But DCL will acquire only on its own terms. This year, for example, it tried to pick up Tomatin, an independent producer of malt whisky. Its stock was selling at 9 shillings on the London Exchange; DCL offered 15 but bowed out when Tomatin demanded more.

"We thought we could get more capacity more cheaply by acquiring Tomatin than by building it ourselves," says McDonald. "It didn't work out that way, so we're building it."

DCL is doubling capacity at its Linkwood and Glenlossie distillers, and at its Burghead maltings. McDonald has no fear of creating overcapacity, since the demand for scotch has been steadily increasing. From 1960 through 1969, scotch consumption more than doubled in the U.S., the company's biggest single market. In the first five months of this year, Americans drank 13% more scotch than in the first five months of 1969. The market share of scotch in the U.S. has gone up from 15.9% in 1965 to 19.2% last year. Sales of its Dewar's (distributed by Schenley) and its Johnnie Walker (distributed by Canada Dry), have been especially strong. For all these reasons DCL is a prized issue on the London Stock Exchange, where it trades at 15 times earnings. That might not seem very high to American investors, but to Englishmen it's very high indeed. As we said, don't be fooled by the 19th-century trappings. ■

Faces Behind the Figures



Evans of Grumman

Shout Hallelujah!

FOR A LONG TIME now the Pentagon has been a fat, five-sided target for critics in and out of Congress. And with some good reason, as a reading of the report of the President's blue ribbon defense panel reveals. The report, which recommends 113 changes in the organization and operations of the Defense Department, chagrined military men. But does that mean, as some critics have always charged, that defense contractors are also unhappy? Hardly.

"The part that concerns us is the procurement part, and I say hallelujah for the job they did," says President Llewellyn J. Evans of \$1.1-billion-sales Grumman Corp. Evans, whose company gets 89% of its volume from the Government, agrees fully with the report's criticism of Pentagon management.

"Do you know what their so-called management control systems are worth?" he fairly shouts. "We've gotten awards from them for using systems we don't use. We go by

the book, file pieces of paper and ignore the system." Evans believes the weaknesses found by the panel are inevitable.

"Look at the decision-makers," he says. "Colonels, or if they're Navy men, captains. They put in two- or three-year tours at the Pentagon, where you can't make rank like you do in the field, so they're not too bound up with what they're doing. They frequently lack expertise to evaluate complex engineering systems, so they fall back on procedure, they pass the buck."

Rash words for a defense contractor? Not really. Evans realizes the present Pentagon needs reform and welcomes it, not least because if things continue as they are Grumman could get badly hurt.

Grumman's main piece of business at the moment is the F-14 Navy fighter contract—potentially worth more than \$3 billion. The company's space business is essentially behind it; none of the other military contracts in Grumman's \$792-million defense volume come close

to the F-14's potential, and Grumman's commercial ventures are not large enough to carry this big company through the early 1970s. Therefore, it is important that the F-14 contract be profitable and not turn into one of those cost overrun nightmares that the Pentagon's now-discredited policy of total package procurement (research and production under one fixed-price contract) have helped cause.

Grumman contracted in January 1969 to build the F-14 at \$7.3 million per plane. The price seemed low even then because the F-14 is meant to replace the canceled F-111B which Grumman was to have built and which was to have cost \$8.2 million each. Also the contract was signed under the old total-package formula, a contract policy specifically prohibited in the defense panel's recommendations.

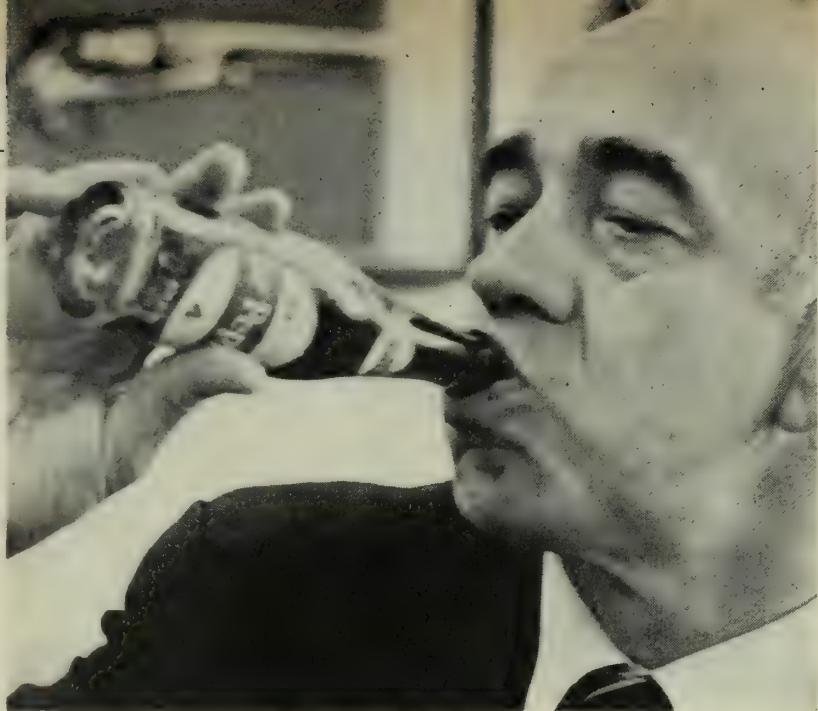
So it is with perhaps an eye to some relief from unrealistic contract terms as well as from paper-shuffling time-servers that Lew Evans of Grumman shouts "hallelujah!" ■

The Hitchhiker

W W. (FOOTS) CLEMENTS, 56-year-old president of Dallas-based Dr Pepper Co., is above all an optimist. "By 1975," he claims, "Dr Pepper will be a strong third in the national soft-drink market behind only Coke and Pepsi." That goal is certainly within reach. Last year Dr Pepper sold 120 million cases in the U.S. and Canada. Worldwide, slower-growing Royal Crown Cola and 7-Up, sold 147 million and 237 million cases, respectively, according to *Soft Drink Industry* magazine.

But Clements, a onetime route salesman who became president in 1969, is also a realist. He knows that little Dr Pepper (sales: \$50 million) can never hope to out-muscle Coca-Cola Co. (\$1.4 billion) or PepsiCo (\$950 million). So he's trying the next best thing: he's hitching a ride. Lacking a strong national distribution network of his own, Clements has signed up 266 independent Coke and Pepsi bottlers to do the job for him. His tireless recruiting really paid off last May when he landed the biggest bottler of them all, \$81-million (sales) Coca-Cola Bottling Co. of New York.

Clements has convinced these



Clements of Dr Pepper

bottlers that it is easier and cheaper for them to boost their sales volume by adding a new drink like Dr Pepper than by increasing the per-capita consumption of their existing brands. And there's no antitrust problem since a court decision has declared that Dr Pepper is not a cola drink. But, happily for Clements, the fruit-flavored Dr Pepper shares one important characteristic with the colas: Many heavy drinkers of soda water can drink it all

day long without tiring of it.

Only time will tell how well Clements' strategy will work. So far, Dr Pepper's trend has definitely been upward: Sales are up from \$28.7 million in 1966 to \$50 million, profits are up from 32 cents to 50 cents a share. Of course, even if Dr Pepper makes only small inroads into Coke and Pepsi volume, Clements' hitchhiking strategy could produce handsome percentage gains for his small company. ■

The Old School Try

IF YOU can spend your way to prosperity, Monsanto Co. should soon be as profitable as they come. Since jovial Edward J. Bock, 53, took over as chief executive just two years ago, he has poured close to a half-billion dollars into new plant and equipment—in an effort to get Monsanto off the earnings plateau where it has languished since the early Sixties. Says Bock: "The reason for our high current expenditures is the modesty of our past investments." In 1971 and 1972, Bock expects to throw in an additional \$600 million. Given the long lead time involved in chemical capital spending, none of this has yet helped earnings. In fact, Monsanto's net this year will drop below the \$3 level for the first time since 1963, and return on equity will be at the lowest level in recent history: between 8% and 9%, among the lowest in the chemical industry.

But Bock is trying hard. He has



Bock of Monsanto

pushed into electronics controls with the acquisition of Iowa's Fisher Governor Co. He has gotten Monsanto deeper into consumer products to reduce its dependence on raw materials. "We're not selling fibers," he points out, "when we're selling Acrilan carpets or AstroTurf [Monsanto's synthetic fiber products]." Right now Coca-Cola is test-marketing a plastic Monsanto bottle that can be burned clean or recycled. Bock has put the company into pollution control with the creation of Enviro-Chem Systems, Inc., which offers systems to treat stack gases, liquid and solid wastes. Then Bock took Monsanto out of such tired businesses as low-density polyethylene and oil additives. "We'll prune more," he says. "We're looking hard at fertilizers, for one."

With a general pickup in business, Bock may yet deliver the goods for Monsanto stockholders, whose shares, at a recent 33, are selling at their lowest price since the 1962 market debacle. ■

Faces Behind the Figures

"How Hard It Is . . ."

JUST MENTION the word "taxes" to a Texas oilman these days and the sound of moaning will echo across the wide open spaces all the way to Washington, D.C. Congress has been plugging up some of oil's most cherished loopholes, and the industry is hurt.

"I don't think the public realizes how risky a business this is. How *hard* it is," complains William P. Barnes, 50-year-old president of Dallas-based General American Oil Co. of Texas. "People say we've had a tax shelter all these years. But to get people to take risks you *have* to offer a good reward."

No question about it: GAO has been handsomely rewarded for its risk-taking. From 1960 to 1969 GAO's earnings leaped nearly 800% from \$2.2 million to \$18.9 million on a modest sales increase of just 75% from \$28 million to \$49 million. And its balance sheet is the very model of fiscal conservatism: Not one penny of long-term debt and cash on hand of \$11 million *vs.* current liabilities of \$10.6 million.

How can GAO, which gets most of its crude from East Texas and Louisiana, compete profitably with much larger and lower cost foreign producers? The reason, of course, is a friendly Congress that has granted the industry innumerable tax breaks in the belief that a flourish-



Barnes of General American Oil

ing domestic oil industry was vital to national security.

Most important to GAO was a device, called production payments, that was pioneered by GAO co-founder Algur H. Meadows back in the mid-Thirties. It was simplicity itself. GAO paid for drilling properties mostly out of oil revenues generated by those properties. No oil, no production payments. For 25% down, GAO could acquire land; if the land yielded no oil, GAO had no further liability. Moreover, the production payment due was not carried on the books as a liability but was shielded from taxation. In time, the device became a heavily criticized tax shelter.

Under rising pressure from critics

of tax advantages like these, Congress has grown less friendly of late. In the past year, depletion allowances have been cut from 27.5% to 22%; the 7% investment tax credit has been abolished; a minimum tax liability has been established; and worst of all, production payments are now taxable. "Having to pay taxes on production payments means we can't pay as much for properties," says Barnes. "It makes it much more difficult for us to purchase properties."

In the wings is yet another threat: Oil industry critics are trying to have tariffs substituted for quotas on imported oil. Until the recent increases in tanker rates and royalties, low-cost Mideast oil could support a high tariff and still undersell domestic oil. Domestic producers like GAO fear that oil imports might double if such a change went through. And that domestic producers would suffer accordingly.

As Barnes sees it, the oil industry itself is to blame. "We've done a bad job of selling our story to the public," he says. "You see, the average oil man considers himself patriotic. Actually a real hero. He certainly doesn't have the same view of himself as does *The New York Times*!"

Probably not. Meanwhile, 71-year-old Algur Meadows, who controls 33% of the stock, is crying all the way to the bank. ■

His Own Thing

"I FEEL like I'm deserting the ship," says Reginald N. Whitman, who resigned in July as Federal Railroad Administrator to head up St. Louis' Missouri-Kansas-Texas Railroad Co. "But my decision was made before the Penn Central thing came to a head, and at 60, I'm not going to have too many opportunities to really handle a railroad and try to do things I think should be done."

In debarking for the Katy, Whitman is not exactly heading for dry land. A wholly owned subsidiary of Katy Industries, which American Gage now controls, the Katy has ranked for years as one of the industry's most conspicuous problem railroads. Attracted by the Katy's leverage and its mounting tax losses (\$35 million), a series of outsiders, Madison Fund, National Industries,

Kansas City Southern, among others, have moved in and out of the company. But even with so able an executive as John Barriger in charge, the Katy still totters on the

Whitman of the Katy



brink. Indeed, Katy, which has not earned a profit since 1963, could well be the next to go.

Like Barriger before him, Whitman pins his long-term hopes for the Katy on a merger, and it's no secret that the Burlington Northern, which may have had a hand in Whitman's nomination and which owns \$7 million worth of Katy subordinated debentures, has had its eye on Katy for some time.

The trouble is, BN has its own problems. Net income was off 75% in the first half of 1970. Then too, the Rock Island merger case is moving toward settlement, and BN wants a free hand to deal with it. So BN broke off its talks with the Katy.

"I'm personally disappointed," says Whitman, who came to the FRA from one of BN's predecessor companies. "BN is a good road, and I have a great love for it. But for now, we'll go it alone." ■



Tried your wings?

A significant percentage of airline advertising is directed to people who can afford to go places that are exotic and remote. However, these people are not prospects if they are unwilling to fly. And some people just won't.

According to the 1970 Simmons Study, over half of the adult population in the U.S. has never flown at all. Even the statistics for FORBES (certainly one of the most—if not *the* most affluent audience measured by Simmons) show that one out of twelve of our readers has never flown.

More surprising is the fact that one in five readers of The New Yorker (first magazine in airline ad pages) and one in three readers of Time Magazine (first in ad revenues), has never flown.

Here are the comparative concentrations of earthbound adults for all publications measured by the 1970 Simmons Study:

% ADULTS WHO HAVE NEVER FLOWN			
Publication	%	Publication	%
FORBES	8.3	Sports Afield	40.1
Fortune	11.2	Popular Science	41.3
In-Flight Magazines	12.8*	Life	41.7
Wall Street Journal	14.9	Hot Rod	42.7
Barron's	15.3	Popular Mechanics	42.9
Dun's Review	15.6*	Field & Stream	43.4
Saturday Review	17.8	Family Circle	43.5
Nation's Business	18.9	Look	43.6
Business Management	19.2*	Woman's Day	43.6
New Yorker	19.7	Reader's Digest	43.7
Business Week	20.5	Parade	43.8
U.S. News & World Report	22.5	Ladies Home Journal	43.9
Car Craft	23.6	Outdoor Life	44.6
Harper's/Atlantic	25.0	Sport	45.6
Sports Car Graphic	25.6*	House & Garden	45.7
Golf Digest	28.5	American Home	46.2
National Geographic	29.3	McCall's	46.8
Newsweek	29.6	Better Homes & Gardens	47.3
Esquire	30.3	Redbook	47.3
Playboy	31.0	TV Guide	47.8
National Observer	31.8	Guns & Ammo	48.6
Sports Illustrated	32.0	Good Housekeeping	49.1
Holiday	32.3	Photoplay	49.8
Time	33.4	Family Weekly	50.2
True	35.0	Modern Screen	51.6
Motor Trend	36.0	Ebony	59.7
Cosmopolitan	36.5	Modern Romances	59.9
House Beautiful	36.6	True Story	69.8
Argosy	38.8		
Mechanix Illustrated	39.5	U.S. Total	50.9

*Relatively unstable.

Source: 1970 Simmons Study.

As you can see, FORBES has been shown to have the smallest percentage of non-fliers. And all airlines know that one's willingness to fly is directly proportional to his income and educational levels. Therefore, all competitive air travel advertising, whether for services or destinations, is best directed to people who are willing to avail themselves of the airline facilities being advertised.

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JULY	138.2
AUG.	137.5
SEPT.	137.1
OCT.	137.2
NOV.	136.3
DEC.	134.5
JAN.	132.4
FEB.	130.9
MAR.	129.0
APR.	127.8
MAY	125.8
JUNE	124.0
JULY (prel.)	123.0

Composed of the following:

- How much are we producing? (Federal Reserve Board Index of Industrial Production)
- What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders of durable goods related to inventories)
- How intensively are we building? (Dept. of

Commerce private nonfarm housing starts)

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



How Much Recovery—And When?

THE STANDARD popular assumption about the stock market's trend between Labor Day and the November elections reads something like this: 1) a higher volume of trading than in July and August, 2) a mild bullish response to slightly better earnings comparisons and a small improvement in business, 3) a rise in the DJI to somewhere around 775 to 790. Mind—this is the standard popular assumption, and not necessarily the opinion of this writer.

Most of us who write about the stock market, you know, are chastened; and we don't dare to be as assertive as we were two or three years ago. We suspect all opinions, including our own. And, I suppose, we are impatient with anyone who thinks he knows exactly what the market is about to do. So what is said in this column in this issue is in low key, however assertive it may sound.

I agree that volume is about to pick up. The "public," which covers 30 million investors owning 70% of all the shares, has been trading in only 3.5 to 4 million shares per session this summer. Most of the activity has been

provided by so-called institutions, especially by new performance fund managements who must "do or die" to get their show back on the road. Just normal routine ownership changes will provide more "public" volume than we had during August—and at times this fall the "public" will do more than routine trading.

The extent of that mild, bullish response to slightly better earnings and a small improvement in business will depend on how successfully Washington's political "jawbone" works and to what extent money is made more plentiful and cheaper. I think there will be lots of jawbone, and that the White House wants the Federal Reserve to make money more plentiful and cheaper. Keep in mind, however, that the Fed is politically independent and is watching continued inflation as well as the elections.

A 50-50 Bet

The anticipated rise in the DJI to the 775 to 790 range, in my opinion, is no more than a 50-50 bet. Perhaps there's an equally probable chance that the 630 support level may be tested. In any event, I don't think stocks will, or should, run away very

far in either direction. It seems to me that the best we can expect is a broad trading range with selective strength and selective weakness. Just now I can't see anything in the wind that is more than moderately stimulative.

Two years ago or so such prices as 8 for *Beverly Enterprises*, 12 for *Boeing*, 30 for *Control Data*, 9 for *Collins Radio*, 19 for *Fairchild Camera*, 220 for *International Business Machines*, 10 for *Kentucky Fried Chicken*, 10 for *Ling-Temco-Vought*, 17 for *Litton*, 9 for *Pan American World Airways*, 12 for *TWA* and 14 for *University Computing* would have looked like bargains. Many people are tempted. Permit me to suggest that these stocks now are not as much underpriced as they were overpriced two years ago, and that some of them may not be cheap at all.

The increased tempo in the collapse in the glamour stocks in August may be traced 1) in many cases to the complete disappearance of the growth factor in most former wonder companies, 2) to the sad end of the general speculative boom, 3) to the gradual discovery of an epidemic of questionable accounting, and 4) to portfolio shuffling by performance mutual funds switching from exploded theory growth stocks to more conventional issues. Glamour company after glamour company, often after assurances to the contrary, has been forced either to report lower (not higher) interim earnings, or to say that results are not as good as previously forecast.

To be brief, *Beverly*, because it can't get that much money, has cut back its fast expansion and has reduced

Mr. Hooper is associated with the New York Stock Exchange firm of W. E. Hutton & Co.

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earnings estimates; Boeing has suffered a sharp drop in earnings; Control Data apparently is earning nothing this year from computers and is saved from a loss only by the non-glamorous Commercial Credit division; Collins Radio has been operating at a loss; Fairchild Camera apparently is not yet earning anything from semi-conductors; IBM's growth rate has slowed down to 10% or less with earnings this year probably no more than \$9 a share; Kentucky Fried Chicken actually earned less in the first half than a year ago and admits that non-fried chicken diversification is going badly; Ling-Temco-Vought appears to have an especially bad case of those diseases common to all conglomerates; Litton has not been able to convince investors that shipbuilding earnings are entitled to anything more than a very low multiple; Pan American and TWA have been suffering from what high leverage does to a stock when earnings decline; and University Computing has suffered from a management credulity gap, as well as unexpected dilution of the equity when it was impossible to arrange enough debt financing on liberal terms.

There's one industry group, however, which seems to be attracting some speculative buying because it is so thoroughly liquidated, the airlines. This group has been mentioned favorably in previous columns. The air transport business is still growing in spite of all its problems. Much of its long-term debt was contracted at much lower interest rates; cash flow from depreciation (deducted before reported net earnings) is enormous; it will be some time before there is another new generation of airplanes to upset the appletart; and a strong case for higher fares will probably accomplish its purpose. That does not mean that prices for airlines shares are moving toward the stratosphere, but it does mean they are more reasonably priced than most glimmers.

Sad to relate, the public likes to buy things that are going up better than to buy things that are going down. For many Wall Street firms which have seen commission income from stock trading drop to half or a quarter of the level of two years ago, the commission business in commodity futures has been a lifesaver. Some of the big firms, which do a huge commodity business, have been able to stay well in the black this summer. So, stocks are feeling competition not only from high bond yields but also from speculation in commodity futures which has been "where the action is."

I always have thought that investors should stay away from the commodities futures market unless they

really are willing to gamble. What usually happens when small people trade in commodities is that they keep on trading till they lose their shirts.

For a long time, the shares of debtless companies were avoided by people interested in investing in stocks. If there's no debt, there is little leverage; and, we were told, if there was no debt the management was not anxious enough to make money by branching out into the deep. The whole conglomerate movement was based on debt, and that is one of the many reasons it came to grief.

Now we see some investors turning to the relatively few "debtless" companies. Among them are *Campbell Soup*, *Maytag*, *Timken Co.* and *Johns-Manville*. Unfortunately, not many so-called growth companies are debt-free.

Watch the Forest Products Group

It may be timely to begin to watch for opportunities in the forest products companies. Earnings from both paper and lumber have been slipping more than most people had expected, and each new earnings report seems to cause stocks like Boise Cascade, International Paper and even Georgia-Pacific to decline. If we are to have a real business revival, much of it will have to be based on building—and a building boom means better earnings from lumber, plywood and other things that come from the forests.

Probably there's no hurry about buying forest products shares, but I think this is an industry classification with which you can be comfortable while you wait. On the basis of the record, *Georgia-Pacific* (47) would seem to be one of the best to own; but it has not sold off as far as some others. I like *U.S. Plywood-Champion* (26) partly because it has felt this drop in forest products prices more than most of the rest. *Weyerhaeuser* (47) and *Crown Zellerbach* (29) are two of the quality issues. If one is looking for huge natural resources and a management determined to increase earning power, *International Paper* (34) has a high appeal. Both *Union Pacific Corp.* (34) and *Canadian Pacific* (55) have large timber reserves.

If you are looking for what the public profanely calls "tips," that is something you are not likely to find in any considerable volume under present conditions. The negatives in most stocks are much easier to find than the positives; and all of us who write about securities have been chastened by our mistakes and inaccuracies. Brokers, analysts and investors have not yet got their nerve back. A little better market, for good reason, or for no reason at all, would do wonders for Wall Street morale. ■

STOCK ANALYSIS

By Heinz H. Biel



Deflating the P/E

FOR A GREAT many years it has been axiomatic that the common stock investor should confine his selections to industries or individual companies that have clearly defined *growth* characteristics, preferably above-average growth. Such policy became even more important, if not mandatory, when inflation began to accelerate and became a significant factor to be considered. The investor learned that there is no other way to overcome the continued shrinkage of the dollar's buying power except by investing in media that *can* appreciate in value—whether it be stocks or real estate, objects of art or rare postage stamps.

As this concept gained general acceptance, investors willingly paid premium prices for growth stocks. To take an obvious example: Since Florida is growing much faster than the New England area, Florida Power & Light has for years been selling at much higher prices than Boston Edison despite the fact that Boston Edison carries a higher quality rating and offers just about twice the dividend yield. Similarly, many investors have poured their money into the fast-growing computer and office equipment industries and have avoided the stagnating steels like the plague.

If just about everyone thinks alike, having the same preferences and prejudices, it is inevitable that exaggerations will result. The unanswerable question is: how much of a premium can one afford to pay for growth without incurring risks that are so great as to nullify the benefits of growth? Many learned books and articles have been written on this subject, usually supported by elaborate mathematical formulae, curves, etc. However, I have yet to find a satisfactory answer which takes into account all the variables and contingencies.

Senseless P/Es

IBM was one of the very few stocks to reach a new all-time high price (387) as late as January of this year. At that time the capitalization of IBM was valued in the market at an unbelievable \$44 billion, about 50% more than AT&T was then worth. IBM had earned \$8.21 in 1969 and was ex-

pected to earn perhaps \$9 or so in 1970, so that at its peak the stock was selling at 47 times 1969 earnings and 43 times 1970 estimated earnings. Conceding IBM's exalted investment rating, the high quality of its earnings and the realistic prospect of continuing growth at a well above-average rate, what earnings multiple would be appropriate, keeping in mind that high-grade bonds are now yielding as much as 9%?

In recent months investors have come to realize that under present conditions such ultra-high P/Es make no sense, mathematically or economically, even if one allows for an annual growth rate of, say, 15%. Recently the price of IBM broke the 220 level, chipping off nearly \$15 billion from the stock's market value and bringing the P/E down to about 25 times this year's estimated earnings. This was still not exactly a bargain, but it was much more justifiable.

A similar deflation of P/Es has occurred in many other favored blue chips. At their mid-August lows *Eastman Kodak* sold at a multiple of 22 times probable 1970 earnings, *Merck* at 23 times, *Warner-Lambert* 21 times and *Disney* 24 times. So long as professional investors as well as individuals retain their predilection for the combination of quality and growth, stocks of this caliber will continue to command premium prices and never become really cheap—unless, of course, the entire stock market goes into a serious tailspin, which is possible but not probable.

There are, however, a number of very fine stocks whose earnings multiples seem somewhat rich and which could, therefore, still be vulnerable. *International Flavors* and *Avon Products* have P/Es of 35, *Xerox* 28, *American Hospital Supply* 30, etc.

While I have no doubt that the stocks mentioned above will almost certainly recover much of their recent losses, the comeback trail will be more arduous for less seasoned growth stocks whose future has become a little clouded. Few companies have had a more meteoric rise than *Kentucky Fried Chicken*. Last year it sold as high as 55%, or 44 times 1969 earnings. Now the incredible has happened: the company suffered a modest

profits decline in the June quarter. That's an unpardonable sin. The stock plunged to 10, less than eight times actual earnings for the past 12 months. While the stock will recover if profits hold up, it is highly unlikely that it will regain its former high evaluation for a long time to come. The same applies to such past market favorites as *University Computing* (down from 187 to 13½!) and many other stocks of this kind, particularly where accounting practices may have been a little too liberal.

The Buy of the Decade

It is supposed to be traditional that investors take a fresh look at the future when they return from their summer vacations and then make up their minds about the stock market. What will they see this year?

Business activity apparently has stopped deteriorating, but no dramatic upturn is in sight. Credit remains tight and expensive, but obtainable; no "crunch" likely. Profits are still being squeezed as labor and other costs continue to rise, but belt-tightening is beginning to show results, and comparisons with the corresponding 1969 periods will be less unfavorable than in the first half. The rate of inflation appears to be slowing down. A major auto strike could come within a fortnight, although the U.A.W. knows that the industry would rather fight than yield to unreasonable demands. The Administration is concerned. The Federal Reserve is concerned. Wall Street is gloomy.

How will the investor react to such prospects? He should observe that the Dow Jones industrial stock average is no higher today than it was in 1961, long before inflation became worrisome. He will also note that many of the bluest blue chips have come down to earth (or at least fairly close to it). He can hardly fail to realize that the stock market abounds in sound values, if not outright bargains.

This could be the great buying opportunity of the Seventies. The most recent downward adjustment in the earnings multiples of the prime-quality growth stocks has corrected the last exaggerations of the past bull market. Rarely has the *risk/reward* ratio in just about every segment of the market been more favorable and the general attitude toward stocks been more negative than now. Just as the alarm clock did not ring when prices were at their peak, we won't know for sure whether stocks may not become even better buys in the weeks or months ahead, but I am becoming increasingly confident that the purchase of almost any meritorious stock will show a profit before the year has ended. ■

Mr. Biel is a partner in the New York Stock Exchange firm of Emanuel, Deetjen & Co.

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WALL STREET VIEW

By Charles Rolo



A Legal Narcotic?

"CATV is an idea whose time has come. All the armies of the world couldn't stop it."—Representative Lionel Van Deerlin (Dem., Calif.)

Last May the 21-year-old Cable Television Industry, which has had a troubled adolescence, received a liberating coming-of-age present from its hitherto restrictive guardian, the Federal Communications Commission. By a 4-3 vote, the FCC backed tentative proposals that would remove the major barriers from expansion of CATV within the 100 largest TV markets.

If the proposals are upheld, the U.S. could become a country wired for cable—offering 12-20 channels now, 60 or more later—within a decade. The astounding range of services which CATV could eventually provide represents a revolution in communications, with far-reaching cultural implications. Irving Kahn, the ebullient president of TelePrompTer, was hardly exaggerating when he said, in a few ill-chosen words, that CATV has the potentialities of "a legal narcotic."

Currently, Cable Television has 4.5 million subscribers, whose annual fees amount to some \$300 million. An important part of the industry's revenue growth will come from sources which lie in the future: advertising (currently negligible) and fees for various services and special programs. The consensus is that industry revenues should grow at an annually compounded rate of about 20%. Thus, including cable and equipment sales, CATV could be a billion-dollar industry by 1975.

So what are we waiting for? Why don't we stuff our portfolios with CATV stocks and sit back with the assurance of an eventual bonanza? The answer is that, from an investor's standpoint, CATV presents a frustrating paradox. While its physical growth is virtually certain, its earnings "visibility" is smog-bound, and the choice of investment vehicles is limited to companies which, with one exception, are small and unseasoned. (Most of the operators went public in 1968-69.)

There are, of course, a number of major companies with a stake in CATV. Among them are Time Inc., Times Mirror, Gulf & Western, General Instrument and Kaufman &

Broad. But (except in the case of General Instrument) CATV is a minor sideline. Therefore the "play" in cable television is in the smaller operators and equipment producers. For reasons of space, I'll confine myself to the operators. But first let me encapsulate some of the problems confronting the industry.

- The FCC proposals will be fiercely opposed by the broadcasting industry and other vested interests. In the long, hard fight which lies ahead, CATV may have to make compromises.

- CATV's freedom to grow will not be granted gratis. Under the FCC proposals, the operators would have to pay 5% of gross revenues to the Corp. for Public Broadcasting (educational TV) and fees to copyright owners of rebroadcast material.

- Earnings "visibility" is smog-bound because this capital-intensive industry will need sizable sums for expansion. Not only is it difficult for small companies to raise capital today, but when they succeed the price is high and may involve equity dilution.

In areas of average housing density, it takes a new CATV system at least two years after construction starts to achieve the breakeven point on the initial investment. A rapidly expanding operator, with growing capital requirements, may find it tough to convince prospective lenders that he'll be able to repay his debt on schedule. Alfred Stern, president of Television Communications, believes one answer to the problem lies in the course TC has taken: some diversification (acquisitions made for stock) into areas which provide stable earnings.

The Yardstick: Cash Flow

There's no really satisfactory way of evaluating CATV stocks. Reported earnings can be misleading, since rapid growth (which brings with it rising depreciation) may penalize earnings. Cash flow is a more meaningful yardstick, and subscriber growth potential within the existing franchises is a major consideration.

Where does all this leave the investor—this combination of extraordinary promise and rather complex problems? My belief is that CATV is a highly intriguing long-term speculation. The stock had a spectacular rise,

A guest columnist, Mr. Rolo is co-director of the Research Dept. of the NYSE firm of H. Hentz & Co.

but subsequently sank again. For the most part they are now at the low end of their price range. In my opinion, a good way to invest in CATV at this time is to put the available funds into a package. Three candidates might be *TelePrompter*, *Cox Cable* and *Television Communications*.

Assuming consummation of its merger with H&B American (now awaiting final SEC approval), *TelePrompter* will be the big boy of the industry. The merged companies will have some 420,000 subscribers and a total potential of 2 million homes in their present franchise areas. TP is 17%-owned (before merger) by Hughes Aircraft, which is joining in the development of cable systems in New York City and Los Angeles.

First-half earnings were up sharply, and for the full year per-share net might be in the area of \$1.60, with cash flow approximating \$3 a share. At the recent price of 54, the stock is unquestionably richly valued. (Thirteen times cash flow is considered by some a "reasonable" valuation for CATV stocks.) What's more, the merger with H&B American will somewhat dilute TP's earnings. But *TelePrompter* has an impressive record of sustained profit growth, aggressive management and a dominant position in the industry. If CATV fulfills its promise, the chances are that TP will amply reward patient investors.

Runners Up

Cox Cable Communications (56%-owned by Cox Broadcasting) is second largest of the operators (180,000 subscribers). The company has operated in the black since 1964 and its growth potential looks good. Cash flow in 1969 was \$2.8 million on revenues of \$9.4 million, and operating earnings rose 20% to 29 cents per share. Revenues and earnings were up moderately in the first half of 1970. At the recent price of 12½ bid, the stock is selling at roughly 14 times this year's estimated cash flow per share.

Television Communications Corp. (75,000 subscribers) is building a major system in Akron, Ohio which has raised its subscriber potential in franchised communities to 300,000. The company is developing a special "pay" program service, and it has acquired a company with respectable earnings in the music business. Various setbacks pulled per-share net down to 5 cents (from 23 cents) in the fiscal year ended July 31; and for some years the ambitious expansion program could prevent growth from being accurately reflected in reported earnings. At 6 bid—8 to 9 times fiscal 1970 cash flow—the stock appears to have considerable long-term speculative potential. ■



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OVERSEAS COMMENTARY

By George J. Henry



Bank Stock Potentials

I THINK it was during the British elections in 1964 that former Prime Minister Harold Wilson was accused by a heckler, when giving a speech, of merely repeating what he had said the previous night at another place. Without hesitation, Mr. Wilson replied, "There are certain things which should be repeated."

I, too, believe that there are certain things which bear repeating, especially when they can have a revolutionary effect not only on the economy but on the political future of the world. I am referring once again to the impact that an enlarged Common Market can have on all our lives. Should Great Britain, with the other three applicants, gain membership, and the remaining members of the European Free Trade Area receive some sort of associate membership, the population of the Common Market would be increased by approximately 50%.

During the first four years of the Community, commerce among its members increased at a dramatic rate. Productivity within the Community increased at a faster rate than in other European countries or in the U.S. I think that with the new members similar dramatic statistics will be made.

Prime Beneficiary

The most obvious companies within the Common Market to benefit are the German banks. As has been frequently stated in this column, German banks act as stockbrokers, investment banks and issue houses, as well as conducting normal banking functions. Many of them have very substantial portfolios in leading German industrial shares. That an increase in commerce has to be followed—or rather accompanied—by an increase in banking activity is axiomatic. Consequently these banks will benefit not only from a possible improvement in German security prices, but also from increased trade. Perhaps partly in recognition of this fact, German bank stocks have been well supported the last few weeks.

The three great German banks are *Deutsche Bank*, *Dresdner Bank* and *Commerzbank*. While the stock of all three is theoretically available in the form of American Depositary Receipts (ADRs), the market in New York is somewhat restricted, and rarely can

one buy any in the U.S. without incurring the interest equalization tax.

The *Deutsche Bank* is the largest of the three, with over \$7 billion in deposits and 1,000 branches throughout Germany. It was recently quoted in New York at around \$82 bid. It is probably the major investment banker in Germany. *Dresdner Bank* is the second largest and seems to be more involved in the investment banking field, but it also transacts every type of banking business. It was recently quoted at around \$67 per share. The smallest of the German Big Three, though by no means small, is *Commerzbank*. It has nearly 700 offices, and, while it has a substantial interest in the investment banking business, the forte of this organization is in short-term credit and other branch banking activities. Its recent quotation was about \$61 per share.

Anyone who wishes to study the potentials which may be present in the German banks will find that, while information is available, it is by no means all that may be desired in order to draw sound conclusions. The information available on some of the other European banks is even scantier, and their stocks are for all practical purposes not available in the New York market. For example, some of the leading Belgian banks, of which *Société Générale* is the largest, undoubtedly have a sound future and could be bought, if available, without a premium. However, this is a somewhat intuitive statement, based on general principles rather than on strict statistical data. Much the same thing could be said of the Italian banks and the one or two French banks which have escaped nationalization. Information on the Dutch banks may be more readily available, but their stock is not.

In countries where the participants in a branch banking system are also heavily engaged in the investment banking field, an investment giving one a participation in the entire economic potential of the country can usually be obtained by a holding of these banks' stocks. Naturally, stocks in individual industrial companies can frequently be found with much greater potential, but few can give the diversified interests available in stocks of the leading banks. ■

The Funds

Bache Rolls Its Own

WHY SELL someone else's mutual fund when you can sell your own? That was what Bache & Co. President Harry A. Jacobs must have asked himself last year as he looked over Bache's red-ink earnings reports. So last month Bache, the second-largest New York Stock Exchange brokerage house, announced it was forming its own mutual fund called Bayrock Fund.

Bayrock Fund is a symbol of the times. A few years ago salesmen at a big retail house like Bache tended to keep their mutual fund prospectuses tucked in the bottom drawer. They were interested in selling stocks, in turnover, in generating commissions, not just one deal. Fund shareholders, after all, tend to buy and hold on, generating only a single commission.

But these days many stockholders don't trade. Not much anyhow. Or if they do, they trade right out of the market into bonds. So Bache

and other firms have turned increasingly to selling mutual funds. Assuming that Bache had mutual fund sales last year of \$100 million (it had more but Jacobs won't say how much) that would have meant commissions of \$8.5 million. That would have been a big help to a firm that had pretax operating losses of \$8.7 million in 1969. In addition to the load fee that Bache will still charge, it will collect an advisory fee of one-half of 1% of assets as well as whatever it can pick up on commissions for executing the fund's trades. That could mean added millions of dollars for Bache.

There are risks, however. By starting a fund, Bache & Co. is putting its reputation on the line. Other name Wall Street houses, such as Lehman Brothers and Shearson Hammill, have started funds and gotten a black eye for it. Concedes Jacobs: "If the fund has a lousy record we'll be hurting Bache."

For all the risk, chances are that other Wall Street firms will eventually start their own load funds.



Jacobs of Bache & Co.

Just last year Merrill Lynch, Pierce, Fenner & Smith began selling mutual fund shares and shortly after acquired Lionel D. Edie & Co., an investment counselor that sells two no-load funds. While Merrill Lynch says it does not have any current plans to start its own load fund, it doesn't reject the possibility that it might someday.

When things are rough, you take your opportunities wherever you can find them.

What Goes Up Should Also Come Down

DURING the late departed bull market, it occurred to some bright, eager mutual fund managers that they were being underpaid. They were generating skyrocket performance for their shareholders but they were being paid the same old flat management fee, usually one-half of 1% of their fund's total net assets. Why, they argued, shouldn't they be paid more for outperforming, say, the Dow Jones industrial average or the S&P's 500?

So it is that over 50 mutual fund management outfits are now paid fees on the basis of their performance. Some of the performance fee schedules are very modest, providing for maximum payments of well under 1% of total net assets. The managers of First Multifund of America can earn no more than a total of one-half of 1%. Even Shareholders Management Co., which manages Enterprise Fund, charges a maximum of only two-tenths of 1% above its base fee of six-tenths of 1% for performance.

Others, however, go right through the roof. Managers of The Medici Fund, for example, can charge up to 5.5% on the basis of performance.

Those at Pennsylvania Mutual Fund can charge up to 3%. A handful like hedge funds can operate with no ceiling at all.

However, a few fund industry consciences were bothered by this one-way street to the shareholders' pocketbooks. "After all, if you're going to stick your hand in the till when the fund does well, you should also be penalized if you don't do well," reasons John Neff, portfolio manager of Philadelphia's Windsor Fund. It strikes shareholders and mutual fund critics as patently unfair that an outfit like Mates Management Co. should receive the relatively high base fee of three-fourths of 1% even though the Mates Investment Fund's net asset value has dropped by over 75% since late 1968.

So Windsor, along with a dozen or so other funds including Hartwell & Campbell, Ivest Fund and O'Neil Fund, has established penalty fees that apply when their managers fail to outperform specified market averages. In Windsor's case, its 0.425% base fee is reduced to 0.35% if its net asset value falls by more than two percentage points

lower than the S&P's 500 over 12 months. Ivest Fund's fee falls (or rises) proportionately with its own investment performance.

Funds like O'Neil and Hartwell & Campbell were started early enough, in 1966 and early 1967, to allow their managers to enjoy some of the upside benefits of performance fees before the market crash began late in 1968 and brought penalty provisions into play.

Inevitably, as the market has worsened in 1970, some of the managers who graciously established performance and penalty fees have begun trying to wriggle out of their deals. Henry Neuwirth's Neuwirth Fund has a performance schedule that runs from a base of one-half of 1% on up. But since his fund's net asset value has plummeted 29% during the past year he's stuck with the minimum base rate. So Neuwirth recently informed his shareholders that he no longer believes in performance fees and for 1970 will charge them a flat 1% fee plus all expenses. That's well above the one-half of 1% average fee including expenses that existed before the performance fee idea originated. And the effect for Neuwirth will be to substantially increase his total fee

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The Funds

for 1970. And what if the Neuwirth shareholders object? Well, technically they can vote out Neuwirth and hire a new manager. In reality, their recourse is to sell out.

Glearily, performance fees can be a fair and reasonable arrangement for all concerned. The main danger, of course, is that they can lead to investment excesses on the part of fund managers anxious to manufacture impressive performance rates—investing in letter stock, untested new issues and parking situations to take advantage of inside information on pending mergers. But to make performance fees viable for all it is equally clear that they must penalize managers for losses as well as reward them for gains. Otherwise they are a blatant farce.

Sic Transit Tsai

REMEMBER Gerry Tsai, first of the gunslingers? Four of the funds managed by his Tsai Management and Research Corp. (CNA Financial-controlled) showed big declines in the current bear market: Manhattan, Liberty, Fundex and TMR Appreciation Fund. That's to be expected. But Tsai also has a record of sorts with his fifth, Hemisphere Fund. *FORBES* estimates that \$100 invested in capital shares in Hemisphere 18 months ago would be worth \$2.91 today.

Hemisphere, started in 1967—what timing!—is a dual-purpose fund. As Tsai explained: "Income shareholders, who contributed 50% of the fund's original capital [of \$32.1 million] receive all the net income of the company, while the capital [share] holders receive all the capital gains." So capital stockholders get all of the profits; they also get all of the losses. Another fund manager, discussing Hemisphere, says, "They speculated and lost—then tried to recoup by more speculation and lost again."

A glance at Hemisphere's portfolio lends support to that view. Last year it had volatile issues like Mattel and Career Academy. In the first quarter, these were mostly dumped, and Hemisphere started adding blue chips plus some more speculative issues like Itek, Saxon Industries and Inspiration Copper. These went down, too, in the spring crash. *Sic transit gloria.* ■

READERS SAY

(Continued from page 10)

couple of years ago, word was received that the manufacturer's nameplate was stolen off the plane in Paris on that eventful night in May 1927. The plate is believed in the hands of a "collector." That is all that is known. I would therefore like to hear from anyone knowing of the location of this plate.

One person remains to be contacted: Laura Ingalls, well-known aviatrix of the Thirties. Laura did much air racing and flew precision aerobatics in a Ryan ST (NC-18901). It is her interest with regard to the Ryan airplane and her contribution to aviation progress that I am most interested in writing an account of.

Persons contributing will be given due credit in the manuscript. Any material loaned will be returned promptly.

—EVERETT CASSAGNERES
1210 Avon Blvd.,
Cheshire, Conn.

Half from Houghton Mifflin

SIR: In your piece on James Parton (*July 1*), new president of Encyclopaedia Britannica Educational Publications, you reported him as investing \$5 million in the American Heritage Dictionary of the English Language. Actually Mr. Parton's company, American Heritage Publishing, invested one half of this amount. The other \$2.5 million was invested by Houghton Mifflin Co., co-publishers of the dictionary.

—JOHN L. RIKHOFF
Director of Marketing,
Houghton Mifflin Co.
Boston, Mass.

In Defense of Patino

SIR: I advise you of the deep disagreement of myself and of my close colleagues, responsible for the effective management of the Patino Group, with the statements in the article pertaining to the professional and private conduct of the late Simon I. Patino and his successors (*FORBES, Aug. 1*).

—E.R.E. CARTER
President,
Patino Mining Corp.
Toronto, Canada

Too Short

SIR: Referring to "Do It Now" (*Fact & Comment, Aug. 1*), why would you make such a suggestion? Is it because Life is Too Short, or is it that you may be on to something? I suspect it is the latter. The enjoy-it-while-you-can philosophy is held by those who see a depression coming. Personally, I am sure of it. Your comments indicate you do too.

—JACK B. BACKER
Los Angeles, Calif.

Nope—it's because Life is Too Short—MSF.

(Continued on page 60)

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READERS SAY

(Continued from page 59)

A Few Words from the Class of '25

SIR: You and I don't seem to think the same about Princeton as we now see it. (*Fact & Comment*, July 1).

—WALTER A. RENTSCHLER '25
Hamilton, Ohio

SIR: ... I like your references to Princeton.

—HERBERT W. OSGOOD '25
Youngstown, Ohio

Asp not Wasp?

SIR: Your quote from John Leggett on a Wasp (*Aug. 1*, p. 12) is patently redundant. The correct term is Asp, not Wasp. I know of no Anglo-Saxon protestants who are not whites.

—JOE MARCHBIN
St. Louis, Mo.

Diligent and Thorough

SIR: I read with interest your editorial concerning George Shultz (*July 15*). How well I remember those Friday night Scout meetings and long walks home! I also remember on fall Saturday mornings playing a rough game of football. And George Shultz was very diligent and thorough at that moment, too. I have just mailed your comments to another old Englewood, N.J. boy, Jim Erwin, Republican candidate for governor in Maine.

—NED BARRON
Farmington, Me.

Last of the Real Milk Shakes?

SIR: If you are ever near Kalamazoo, Mich., stop in our store, which my husband has run for 40 years and his father before him, and have a "good milk shake" made with "scoops of real ice cream with real milk and real syrup" (*Fact & Comment*, Aug. 1). And while you sit at the marble fountain, a 1910 Coca-Cola beauty will smile down at you.

—MRS. MAURICE E. DUNWELL
Kalamazoo, Mich.

SIR: ... Isaly's Dairy, Butler, Pa. and Don's Dairy & Restaurant in Clarion, Pa. ...

—D.W. STRICKLER
Erie, Pa.

SIR: ... O'Rielly's Ice Cream Shop, Dallas. ...

—W.W. NEWTON JR.
Vice President
O'Rielly's Ice Cream
Dallas, Tex.

One Man's Opinion

SIR: *Fact & Comment* could be reduced 50% to 100% and *FORBES* might improve its worth.

—GORDON E.P. WRIGHT
Mobile, Ala.

Trends & Tangents

(Continued from page 8)

Better Mousetrap

Noise is being used by a New York company, Ultrasonic International, to build a better mousetrap. Its Rodex device (price: \$150) emits high-frequency sound waves over a 6,000-foot area. The waves are inaudible to humans but will disturb mice and rats enough to drive them out of supermarkets, warehouses and other buildings. One unsolved problem: what to do with the pests after they leave the building. Says the company loftily, Rodex was designed "as a deterrent, not a killer."

Nothing Left To Switch

When the stock market tumbles, banks and savings & loan associations are often among the prime beneficiaries. Nervous investors pull their money out of the market and put it into savings accounts until prices start to recover. This year, however, with the market slump turning into a crash and the economy in recession, the public has very little money left to sock away. Or they are putting what they have into bonds and other high-yield investments. Thus the nation's 300 largest commercial banks, which enjoyed an 11.6% gain in savings deposits during 1969, have had to settle for a 3.1% gain during the 12 months ended this past June 30. Deposit growth at mutual savings banks and S&Ls likewise has declined by almost half to around the 3% level.

Fast Wash

The Osborn Building in downtown St. Paul, Minn. now possesses the world's first fully automated window washing system, called "Steeplejac." Produced by Minneapolis-based Alpina Aluminum Products, it descends from the roof along tracks set within the building's mullions and can scrub and wipe dry the building's 2,000 windows in four days—a job that manually would take two weeks to do. Steeplejac will be able to demonstrate its full potential in solving problems of cost and safety late next year. It will be installed in the world's tallest building, the twin-towered World Trade Center, now under construction in New York. ■

FORBES

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THOUGHTS... ON THE BUSINESS OF LIFE

A man is a worker. If he is not that he is nothing. —JOSEPH CONRAD

No one is free who commands not himself. —EPICTETUS

We praise a man who is angry on the right grounds, against the right persons, in the right manner, at the right moment, and for the right length of time. —ARISTOTLE

Passions unguided are for the most part mere madness. —THOMAS HOBBES

Keep cool; anger is not argument. —DANIEL WEBSTER

The constancy of sages is nothing but the art of locking up their agitation in their hearts. —LA ROCHEFOUCAULD

Speak fitly, or be silent wisely. —GEORGE HERBERT

The greatest troublemaker is one who talks too much. —DALE W. McMILLEN

Silence makes no mistakes. —FRENCH PROVERB

I hold it to be a proof of great prudence for men to abstain from threats and insulting words toward anyone, for neither diminishes the strength of the enemy. —NICCOLÒ MACHIAVELLI

Keep cool and you command everybody. —LOUIS LÉON DE SAINT-JUST

No race can prosper till it learns that there is as much dignity in tilling the field, as in writing a poem. —BOOKER T. WASHINGTON

He only employs his passion who can make no use of his reason. —CICERO

B. C. FORBES

The man who is bigger than his job keeps cool. Confident that he is equal to any emergency, he does not lose his head. He refuses to become rattled, to fly off in a temper, to stamp and holler and swear. The man who would control others must be able to control himself.

The plainest sign of wisdom is continual cheerfulness; her state is like that of things in the regions above the moon, always clear and serene. —MICHEL DE MONTAIGNE

Reason and judgment are the qualities of a leader. —TACITUS

He who curbs his wrath merits forgiveness for his sins. —HEBREW PROVERB

It pays to keep your temper intact. —ARNOLD GLASOW

Without labor nothing prospers. —SOPHOCLES

An uncontrolled sense of humor is often costly in business. —WILLIAM FEATHER

When angry, count four, when very angry, swear. —MARK TWAIN

Nature, which gave us two eyes to see and two ears to hear, has given us but one tongue to speak. —JONATHAN SWIFT

Keep your mouth shut and your eyes open. —SAMUEL PALMER

When one is in a good sound rage, it is astonishing how calm one can be. —EDWARD BULWER-LYTTON

Epithets are not arguments. Abuse does not persuade. —ROBERT G. INGERSOLL

Every stroke our fury strikes is sure to hit ourselves at last. —WILLIAM PENN

I can stand brute force, but brute reason is quite unbearable. It is hitting below the intellect. —OSCAR WILDE

A Text...

Sent in by H.W. Sphar, Pittsburgh, Pa. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

He that is slow to anger is better than the mighty; and he that ruleth his spirit than he that taketh a city. —PROVERBS 16:32

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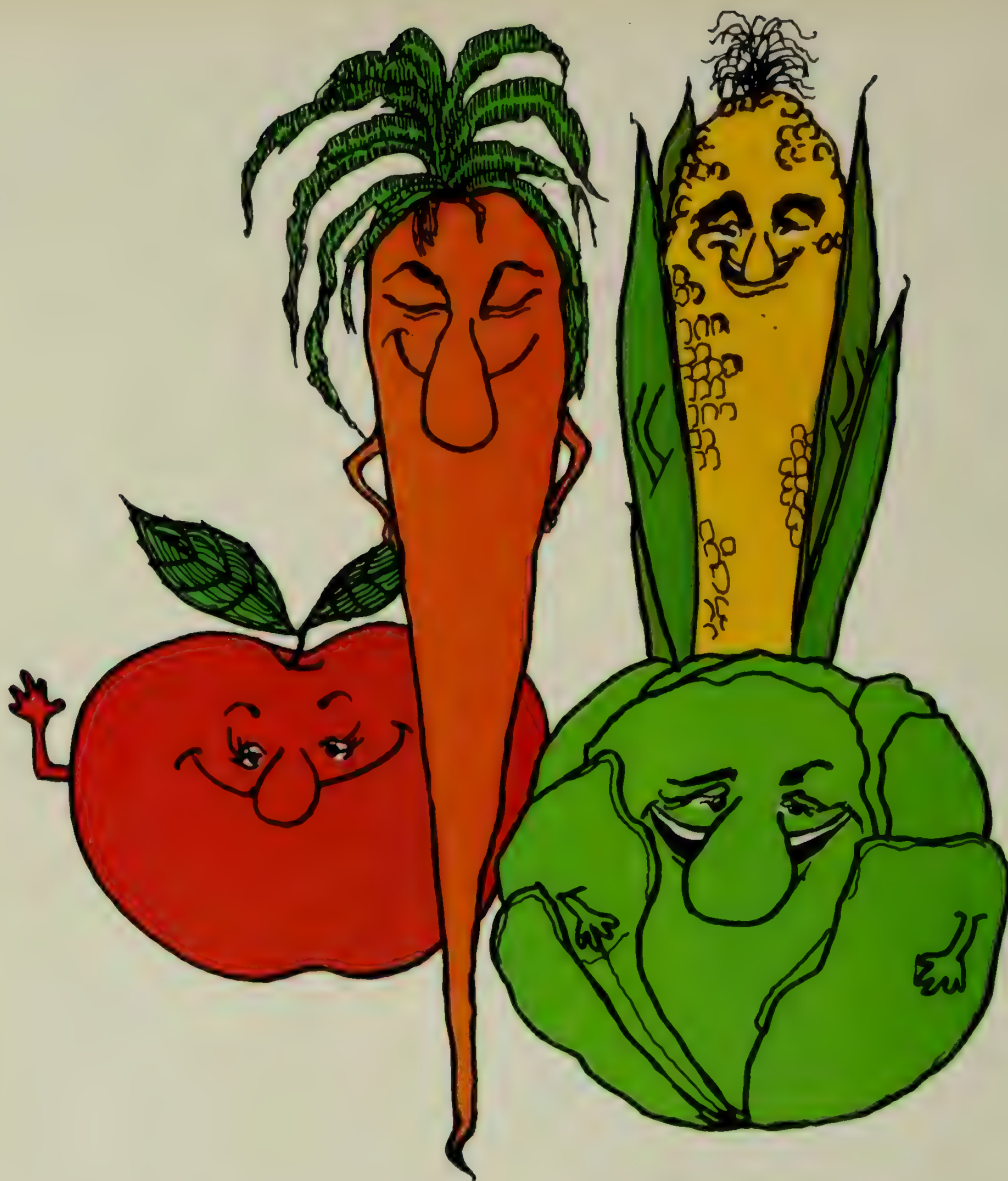
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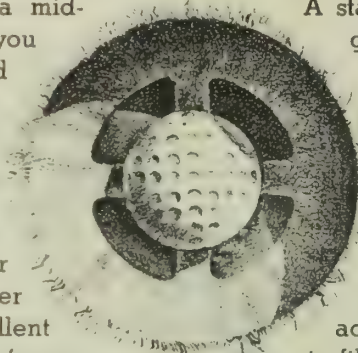
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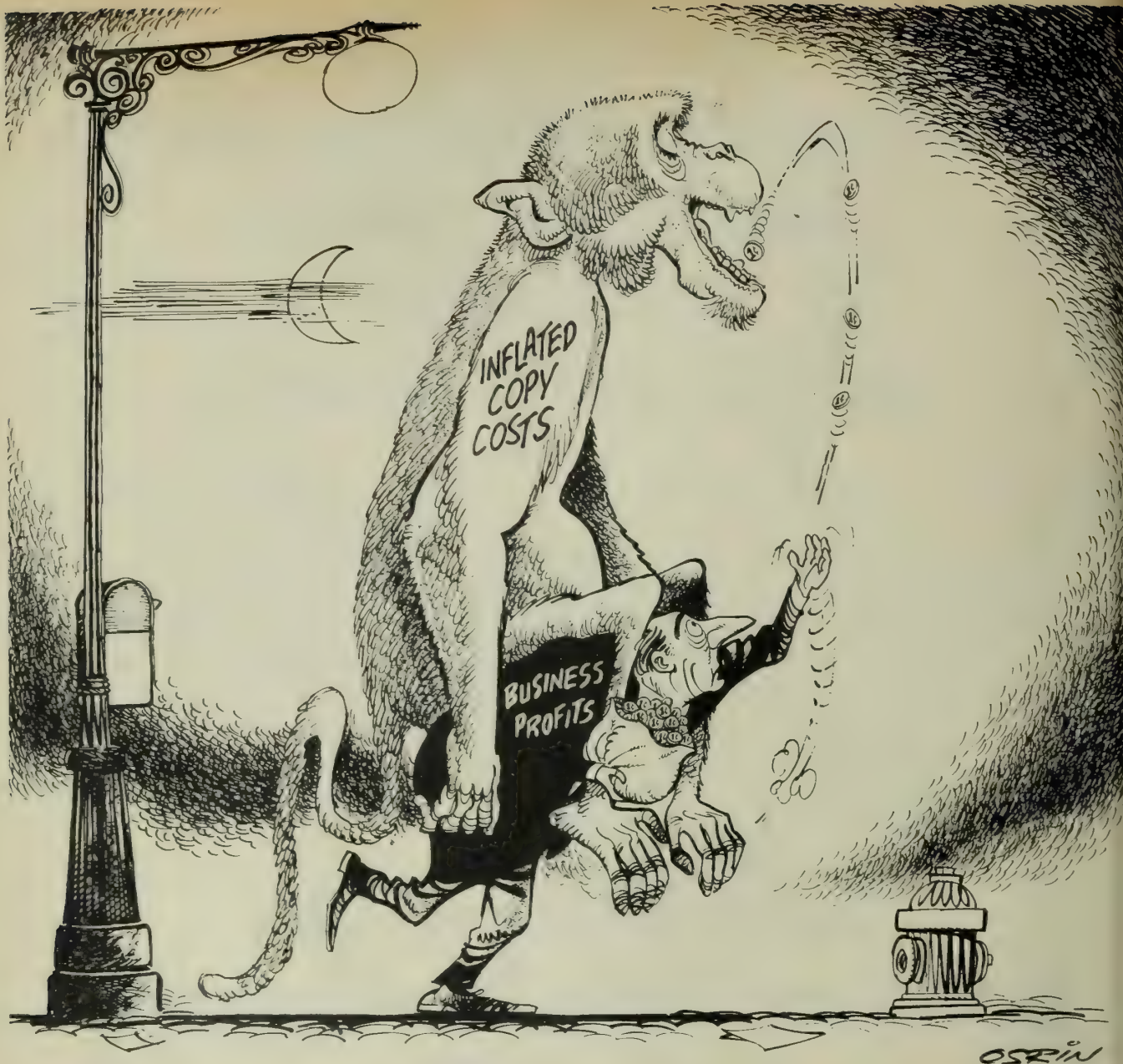
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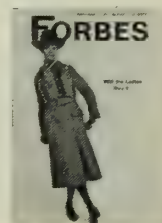
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PHOTO AND ART CREDITS: St. George Tucker Ranson, pages 7, 34 bottom left, 64, 68, 90; United Press International, pages 24, 74 bottom; Culver Pictures, page 28 left; David Falconer-Black Star, page 28 right; Pictorial Parade, page 30; Jim Jowers-Nancy Palmer, page 32; Stern-Black Star, page 34 top left; Bill Mitchell, page 37; Richard Rosner, page 51; Ed Wergeles, page 57; Jim Mahan, page 70; Rafael Macia, page 72 top; Wide World Photos, page 74 top; Charts by Peter Di George.

COVER OUTFIT: Calvin Klein of Bonwit Teller

FORBES is published twice monthly by Forbes, Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office, New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.

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**Sometimes we can
say it better with sign language.**

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And we don't mind admitting it's pretty strong! The kind of language that industry understands. The kind of language that says "opportunity" like this: 80 per cent of all the types of manufacturing activity classified by S.I.C. (4-digit group) are represented in Maryland; over 400 science-oriented industries cover nearly all fields of research and employ more than 10 per cent of the total labor force. Of the 500 leading U.S. industrial corporations, 181 have manufacturing operations in our state.

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FORBES, SEPTEMBER 15, 1970

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FOUNDED 1917 BY B. C. FORBES (1880-1954)

FORBES, SEPTEMBER 15, 1970

Side Lines

Midiminimaxi

EARLIER in the summer, a number of the attractive young ladies in FORBES' editorial department made a not-entirely frivolous request: Would we mind if they sometimes came to work in pants suits this winter? We said, no, we didn't mind; it's a free country. But why? Because some of them were afraid that their miniskirts might be out of date by then, but they didn't want to make major investments in midiskirts, which might have only an ephemeral fashion life. Pants, by contrast, would always be good.

This set us to thinking. There was more to this skirt-length business than whether the garment business would or wouldn't have a good season. Wasn't it all somehow tied in with the whole business of consumer revolt, of an increasing refusal on the part of the consumer to be dictated to? We suspected it was. The result was the cover story that begins on page 28, the work of a team headed by Special Reports Editor Kenneth Schwartz. Working with Schwartz in New York were Researcher Nancy Jennings and Reporter Walter Hussman; in Los Angeles Reporter Ellen Melton; in London, Harold Lavine. FORBES Researcher Suzanne Fogelson modeled some fashions for our photographer in the high-fashion Henri Bendel store in New York (*right and p. 34*).

Before they finished, our team talked with more than 50 designers, clothing manufacturers, retailers, economists and fashion editors. We talked with the International Ladies Garment Workers Union, to buyers from Scranton, Pa. and to granny-skirted secretaries in London. From London, Harold Lavine reported finding a ladies' underwear manufacturer who solved the mini-midi-maxi problem by designing an adjustable-length slip. From Los Angeles Ellen Melton reported that the midiskirt had already passed its peak in that city. From Johannesburg a FORBESman reported that although South Africa was the home of the bluest blue laws in the Western world, its girls wear some of the tiniest minis—and seem determined not to give them up for a new fashion. On New York's Seventh Avenue we found many manufacturers—and a good many of the retailers—were very worried about the new fashions. And a bit miffed at the fashion-makers.

The wife of one of our editors remarked that the new long fashions reminded her of the getups German military men used to affect. Sure enough, our art department found a picture of Adolph Hitler, clad in what might almost have come right off the racks at Saks Fifth: ankle-brushing great coat, slightly fitted at the waist; slash pockets; big buttons ending at the waist (to permit goose-stepping); underneath a pair of stylishly crumpled leather boots. We thought of running the picture side by side with a shot of one of the new ladies' coats, but decided in the end that Hitler isn't funny. Not even after 25 years. So we used Erich Von Stroheim instead (*p. 28*). The picture isn't as good, but you'll see the parallel.

You'll also end up wondering—as we did—whether the fashion business can prosper by offering styles that are “new” without necessarily being more attractive. ■



Sue Fogelson

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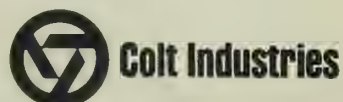
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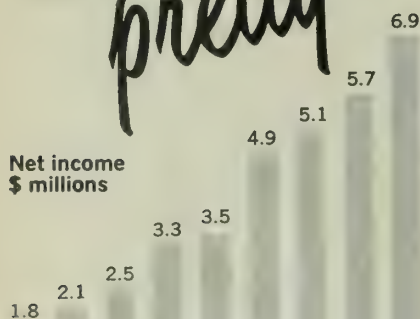


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pretty*

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\$ millions



'61 '62 '63 '64 '65 '66 '67 '68 '69

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Trends & Tangents

How We Live Now

After lunch on Friday, July 24, President Philip J. Lucier of Continental Telephone Co. got into his black Cadillac limousine, turned on the ignition and was killed instantly by a bomb explosion. There are still no clues, not even a hint at who might have a motive for killing the 49-year-old executive.

The day Lucier was killed, in a parking lot in the St. Louis suburb of Clayton, Mo., there was fear that radicals were out to get businessmen. Says Major Herbert Johnson, chief of Clayton police, "Right after the crime, I got calls from five or six other men in the building with black Cadillacs. They weren't sure the bomb wasn't meant for them. Neither was I."

But one month later, *FORBES* found, such fears had passed. There is not even much comment on the matter. And Philip J. Lucier is remembered by associates as a fine man and by others in those obituary-style phrases that outline a man's life: "Father of 11 children, graduate of Notre Dame. . . ." And co-builder of the U.S.' fourth-largest telephone company.

Sears' Sedans

Just six months after starting up a mutual fund, restless Sears, Roebuck & Co. has moved into another new area: car rentals. For a starter, the giant merchandiser will rent cars at 30 stores in Philadelphia, Miami, Dallas-Fort Worth, San Diego and Columbus, Ohio. Sears, the original discounter, only says that its rates will be competitive. Initially, the rental outlets will be operated as a concession under the Sears name by a Transamerica Corp. subsidiary, Budget Rent-a-Car of America. But if the idea works and spreads to most other Sears stores, don't look for Sears to continue sharing the profits.

The Beginning?

Being a supplier to the \$40-billion carmaking industry can be a lucrative business. But the danger, as many parts companies have found to their sorrow, is that the car manufacturers buy from you until they can make it cheaper themselves. Therefore, the steel industry has more than a passing interest in a mini-mill built by Gen-

eral Motors' Oldsmobile division in Lansing, Mich. to produce steel bars from scrap. That's because cars consume about 20% of finished steel products, GM alone about 10%. If the Olds mill achieves the expected 35% to 40% savings over buying bars on the outside, who knows how far GM might go. Perhaps, as far as Ford Motor Co., which has produced 50% of its own steel for years.

Boom Thinking, Bust Economy

Some major U.S. companies are strapped for cash these days because they planned on this year's earnings to pay for last year's acquisitions. A study by Dun & Bradstreet says half of the companies currently not paying their bills on time were dipping into working capital and piling up short-term debt last year to make acquisitions and expand plants. They bet—and they were dead wrong—that this year's cash flow would be sufficient to pay off their borrowings.

Just Temporary?

U.S. exports to Japan increased so much during the first six months of 1970 that they were almost equal to imports from Japan. Why? (Continued on page 12)

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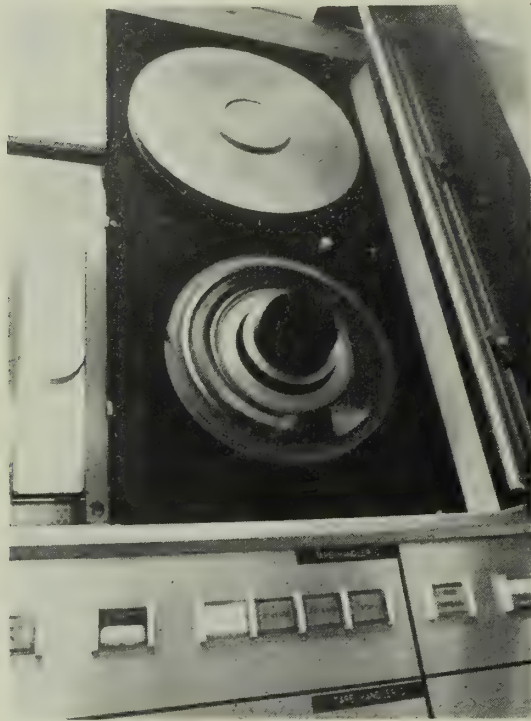
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Trends & Tangents

(Continued from page 10)

The Japanese attribute it to the U.S. recession and the continuing buoyant economy of Japan. U.S. exports were up to \$2.2 billion, a 44.2% increase over the \$1.5-billion figure for the first six months of 1969. Meanwhile, U.S. imports from Japan were \$2.6 billion for the first six months of 1970, a 20.4% increase over last year's \$2.2-billion figure.

Chilly Motoring

Have you ever wished you could export that rush-hour traffic jam to Russia? Within a decade or so you may be able to do just that if UCLA professor T.Y. Lin has his way. What civil engineer Lin and his Intercontinental Peace Bridge, Inc. are proposing is a reinforced concrete bridge from Alaska to Siberia across the shallow 50-mile Bering Strait. The idea is at least 100 years old, but Lin believes it is now technologically feasible. The cost? A cool \$1 billion. But, says Lin, that's only \$2 per person if all the Russians and Americans chip in.

Automated Back Talk

Audiovisual aids in the classroom are nothing new, but they have usually been confined to one-way communication: instructor to student. Philips Lamp proposes to complete the circuit with its "student intelligence responder," a device allowing the student to communicate with the instructor. Teachers will receive instantaneous feedback on multiple-choice questions, thereby assessing both individual and class performance.

Bouncing Back?

Chemicals may be a dirty word to natural rubber producers, who have steadily lost ground to synthetic rubber. But one chemical, Rorer-Amchem's Ethrel, could change all that. Ethrel is designed to stimulate latex flow in rubber trees and so far has worked pretty well. Tests conducted over an 18-month period, have shown that Ethrel about doubles rubber-tree yields, without harming the trees. Moreover, it is applied to trees already in the ground, whether seedling or full-grown. ■



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FORBES, SEPTEMBER 15, 1970

READERS SAY

Mr. Salvatori Objects

SIR: Your article on Norton Simon and myself in your Aug. 15 issue was evidently written to entertain rather than to inform your readers. . . . Prior to entering the race against Senator Murphy, Simon had never been visibly identified in any way with the Republican party in California. . . . These, then, were the Republican credentials of the man who set out to challenge Senator George Murphy, . . . whose philosophy is attuned to the basic thinking of the great majority of the voters. . . .

Although your correspondent did not name him, one of the so-called "moderate Republican congressmen" whom I opposed is Congressman McCloskey. . . . McCloskey seeks an immediate withdrawal of our troops [from Vietnam]. . . . He is against the installation of ABMs, MIRV missiles, and is for drastic cuts in most defense expenditures. . . .

That I am "not talking to the press these days" will surprise a number of the members of the press who have talked with me recently. . . . My sagacious secretary screens all of my calls and apparently decided from your reporter's casual approach that an interview with him did not warrant a drastic rescheduling of my time. . . .

The words attributed to me by indirection, namely, "I built a business and nobody's going to take it away from me," completely misrepresent my thinking. My prime concern is not to hold on to my possessions but to help preserve our nation as a free society. While I agree with Mr. Simon that it is important to bring the "young and disaffected," into the enterprise system, I consider it much more important to foster in them an appreciation of our socio-political system. . . .

—HENRY SALVATORI
Los Angeles, Calif.

SIR: I can assure you that \$200,000 was not spent in our attempt to unseat Congressman Bell. The contributions of Mr. Frawley and Mr. Salvatori were only a fraction of the \$125,000 mentioned as their combined contribution.

—E. JOE TURNER
Treasurer,
LaFollette for Congress Committee
Los Angeles, Calif.

SIR: You quote [Norton] Simon as "being determined that Salvatori and his friends are not going to win by sheer force of money" (FORBES, Aug. 15). Let's face it, Norton Simon did his best to win by the same *modus operandi*.

—ELLIS M. STEPHENS
Ross, Calif.

Pie In The Sky (Face)

SIR: Your pie in the face cover is an excellent put-down of the mutual fund dodge which had gotten too big for its pants (FORBES, Aug. 15). But how about the debacles between individuals and

private investment advisors? I had a sour experience with the trust department of a large local bank from which I expected "astute, conservative, hard-headed management." Instead, I was stuck with management so knuckle-headed that I cried: "Hold! Enough!" Under my own mismanagement, I'm actually saving money.

—SCOTT BAILLIE
San Francisco, Calif.

SIR: The net asset value figures which our company supplied for your Mutual Fund issue were incorrect. We would appreciate your correcting the inaccurate [dollar results] figure published by you because of our error.

—K.G. SIEDERER
Treasurer,
Eurofund International, Inc.
Newark, N.J.

On the basis of Eurofund's corrected numbers, its overall period 6/30/62–6/30/70 should be \$112.73 instead of \$80.39 as printed—ED.

SIR: I wonder if the recipient of the custard pie might have been portrayed a few years ago as eating a large, juicy melon with visions of sugar plums and other goodies to come. The loss of paper profits in the stock market this year is treated almost as though it had never happened before—as though there never before had been financial manipulators and Wall Street boy wonders. When the next generation of [fast-buck boys] arises, I trust FORBES will remember they are not all to be found in Las Vegas or at Aqueduct.

—PAUL S. WEBER
Wyckoff, N.J.

SIR: You who rant about the real old-fashioned milk shakes (*Fact & Comment*, Aug. 1), now put a *real fake* pie-in-the-face [on your cover]. It looks like shaving cream to me [age 14].

—SARAH LAMB
Fitchburg, Mass.

It is *shaving cream*, Sarah. *Real whipped cream* would melt fast under studio lights—ED.

Feeling Left Out

SIR: Re "Everybody In" (FORBES, Aug. 15, p. 21)—one omission into the expanding computer or information systems services area is Boeing Computer Services, a new division of the Boeing Co. announced in May, 1970.

—LONNIE N. HAKALA
Boeing Computer Services
Huntsville, Ala.

And the Public Ones, Too

SIR: Re your editorial "Unconscionable" [regarding company pension plans] (*Fact & Comment*, Aug. 15)—is this situation of concern only to those under private retirement plans? Some years ago I worked for a few quarters under the Social Security System. I am now told that in order for me to receive any bene-

(Continued on page 94)

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- Do we have the internal resources to assure satisfactory answers to these questions?

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Fact and Comment

DON'T HOLD YOUR BREATH

If you're anticipating an appreciable improvement in business to accompany the stock market rise, I'd suggest not holding your breath awaiting its arrival.

President Nixon has steadfastly refused to attempt dampening inflation by jawboning about prices and wages on the premise it wouldn't work, and he's probably right. By the same token, the Administration jawbone chorus about business getting better isn't going to make it so.

Have you lost your job lately? Hundreds of thousands have and it's inhibited their spending as consumers.

Have you come out of school or the army and been looking unsuccessfully for a job lately? Hundreds of thousands have and it is inhibiting their spending as consumers.

Have you known a friend or a neighbor, or several friends or several neighbors, who have lost their jobs lately in Seattle or Los Angeles or Detroit or Baton Rouge? Several millions of us know friends and/or neighbors in this position. And it has an inhibiting effect on our spending as consumers.

* * *

As consumer spending has lessened so has the enthusiasm for expansion and expansive spending by business. I can't think of any industry where budget cutters have not been busily cutting every day every way everywhere. Restarting spending is a slower process than cutting when cutting starts. As they used to teach us in physics, it takes

a vast quantity of energy to reverse lost momentum.

* * *

All the flapdoodle about whether or not we are in a slowdown is indeed flapdoodle.

We are.

Whether the down has bottomed is still arguable, but those who now see a third-quarter upturn need to visit their eye doctor. Those who foresee a big fourth-quarter upturn—we're just entering the fourth quarter you know—ought to get new Ouija boards.

* * *

So, is all bleakness and blackness in the economy? No.

Actually if things don't get any worse it's all to the good. If things get too much better too fast, it would be all for the worse.

Because remember, dear reader, we got into this slowdown because inflation was out of hand. Everybody was spending and expanding and growing and borrowing and pyramiding and projecting their corporate growth geometrically; prices and profits were in such a race with wages that the poor dollar and the fixed income were as the rest of the field is to Nijinsky.

For the balance of this year we'll continue to pay the piper for piping down.

But we should enter 1971 with an economy better positioned to move gradually, healthfully ahead.

ALL BETS OFF IF—

The foregoing pessi-optimistic editorial on the economic outlook will be even more than usually wrong if the federal deficit mounts to anything like some of the higher estimates. A few "Administration officials" have been said to have said that this deficit could reach \$26 billion. Let's hope to heaven those particular Administration officials both don't know what they're talking about and have nothing to do with determining spending/not-spending policies.

Businessmen and most of the rest of the American people have reached a sufficient degree of economic sophistication to know that overspending by anything remotely approaching that margin would have disastrous consequences on the value of the dollar and on the availability

of dollars. It would be a hypo of killing portion. About the only people in the country working overtime would be the printing pressmen in the Treasury Department literally responsible for producing greenies.

Politically the Nixon Administration absolutely has the right end of the stick when the President vetoes overspending measures and when he presses for certain additional revenues.

If the Democratic majority in Congress wants to grab the right end of the issue, they can best do so by cutting back on the Administration's budget rather than adding substantially to it. If the President can stick the deficit tail on the Donkey, the Republican party will be the winner.

EVENTUALLY, SO WHY NOT SOONER?

At luncheon here recently we were discussing with John P. Fishwick, keen-minded chief of the Norfolk & Western Railway, the ever-worsening problem of moving people in the country's spreading megalopolises. He made his observation. "Sooner or later we've got to have something better than a wheel to move people within suburban-urban areas."

Sooner will be much better and less expensive than later. The problem is vast enough, critical enough, and more

than enough pollution-related to warrant some brain power by imaginative corporations looking for tomorrow's opportunities. Seeking answers should provide stimulation to the inventive minds of the academicians and professionals in urban planning and related sciences.

One reason this country has achieved uniquely is because Americans have always acted on the premise that problems are for solving.

WHAT A SENSIBLE IDEA

San Francisco, I understand, is responsible for implementing one of those brilliant ideas that's so simple all of us wonder why nobody thought of it sooner.

The one-way bridge and tunnel toll collection.

It obviously takes no longer to collect a buck than a half. It should require half the number of actual toll takers (though we can be sure in practice it won't quite work

out that way); it should cut toll-paying traffic delays in half, because it happens only once instead of twice in every round trip.

The man who thought of this one deserves at least a pay raise, a medal and a sizable promotion.

The only loser is the fellow who's going one-toll-paying way—and, since he's not coming back, his vote won't count.

THE MARINES DO IT AGAIN

This must be San Francisco day in "Fact and Comment," because the other fabulous idea being commented on here also originated in our civilized city of the Golden Gate.

To help alleviate the occasionally explosive unrest of youth with summertime on their hands and little else, a Marine Corps colonel—who ought to be made a general—offered to take on 400 ghetto young for a week each at the Marine Corps' Lake Tahoe survival and training school. There the troubled, troublesome young teenagers,

whatever their previous record, spend a week with Marines as their counselors doing all the fabulous camping things that their wealthier counterparts do at expensive private summer camps. San Francisco's businessmen, who have sense enough to know a good idea when they see one, put up the money for food and miscellaneous expenses that are not part of the Corps' budget.

This great U.S. Marine action ought to be taken up by all the Services all over the country.

HEIGH-HO, HEIGH-HO, IT'S OFF TO WORK . . .

Britain's most recent dock strike, as usual, wreaked infinitely greater economic havoc than ever any hurricane wrought. But a direct descendant of one of Snow White's Seven, as quoted in a special report from London to the *New York Times*, provided one of the day's more cheerful notes.

Freddie Talbot, sitting in the Connaught pub, and described by correspondent Bernard Weintraub as ". . . a

slight, frail cargo handler in a woolen cap and worn boots" mourned—"I've worked on the docks 25 years. Every morning I drink my five pints, then go across the street to work. I've drunk my pints and I've got no place to go."

Now there just aren't that many men among us who could go anyplace, never mind to work, after five pints—five British pints. It could be described as a bloody brothly bit of breakfast.

—MALCOLM S. FORBES,
Editor-in-Chief

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Cracks in a Golden Egg

Pro football may become a \$100-million business this year, but it faces a critical test.

COMMISSIONER Pete Rozelle sees only roses this fall as he looks down the field into professional football's 51st season, which begins Sept. 18.

The game should easily become a \$100-million business for the first time. Almost 40% of the annual take will flow from an estimated \$180-million television contract running four years. The upstart American Football League becomes only one conference in a 26-team National Football League; bonus-player wars are forgotten. Soon a majority of the teams will be playing in new stadiums. When 100 million Americans may watch games on TV or in the stands on a single Sunday, pro football is obviously king.

Rozelle, a shrewd 44-year-old former public relations man, takes the sport's primacy quietly and confidently. "We've got a lot going for us," he says. "We're in tune with the times. We're national in scope. We have a unique audience, young middle to upper class, with a high percentage of college graduates."

Nice talk if you're marketing soap or cigarettes. But pro football is hardly those packaged items—yet. It's mainly warm bodies slugging into one another on the field. But there is plenty of action off the field, too. And some observers seriously wonder whether that may not take the kick out of the business of playing football.

And it almost has to have a kick. As Clint Murchison Jr., owner of the Dallas Cowboys and proprietor of a family fortune estimated at \$500 million, says: "A man has to be out of his mind to go into pro football to make money. You buy a team because you're kind of an addict."

Except for the Green Bay Packers and the Boston Patriots, which as closely held corporations are special cases, the other 24 team owners are football addicts, too. Some are professional sportsmen, like Wellington T. Mara, owner of the New York Giants, and Jack Kent Cooke, who has some \$31 million invested in various sports interests, including a piece of the

Washington Redskins. Others are multimillionaires who have found a passionate outlet in professional football—men like Lamar Hunt, son of oilman H.L. Hunt of Dallas. Lamar started the Dallas Texans with his cash, got the AFL off the ground, and fought Murchison for three profitless years before dwindling Dallas crowds until he discovered Kansas City and eventually won the Super Bowl game.

There are others equally as dedicated: such as William Clay Ford, brother of Henry Ford II and owner of the Detroit Lions; John W. Mecom Jr., son of a Houston multimillionaire and president of the New Orleans Saints; San Diego Chargers owner Eugene Klein, who is chairman of National General Corp.; and Rankin Smith, Atlanta Falcons head who is president of the Life Insurance Co. of Georgia. A profitable game for them? At least three, and some experts believe as many as ten, pro teams lost money last year. One owner, Denver Broncos Chairman Gerald H. Phipps, reports that the team finally about broke even after ten years. "We'd all do better investing in municipal bonds," Phipps says.

Player Fallout

Rozelle believes that the new television money, about \$1.5 million a club, should draw all the teams into the black in 1970. Well, it may. But even before the season began, the owners knew that times were out of joint. There were the celebrated cases of the two superstars, for instance. Joe Kapp held out at Minnesota, and his lawyer threatened an antitrust suit aimed at the control teams have over their players. In New York, Joe Namath played peekaboo with the Jets and shocked the football addicts by declaring "there are other things than football." And Dave Meggysey, the tough St. Louis Cardinals line-backer, quit to write a book complaining about the game's violence and the way players are treated like chattel. "We're considered to be something like a drill press and

then depreciated," Meggysey charges.

But what really shook the team owners was the pre-season strike by the Players Association. During the



tough summer negotiations, both sides issued unusually emotional statements. "I think there is a possibility the season is over now," said Leonard Tose, the new owner of the Philadelphia Eagles, at one point. The crisis was not just a creature of eager sports-writers. The players didn't get all they wanted, but the owners had to settle for a \$19.1-million, four-year package

insuring pensions and other fringes.

Murchison's player costs have tripled in the ten years he's had the Dallas team. And he feels now the owners "will have to exert tremendous pressure to end extravagant bonuses and put the salary negotiations together with fringe benefit talks. It's all gotten out of line."

A Mighty Shelter

The players seem to have a united front for the first time. And they take some of the owners' painful cries with a grain of salt. They know franchises have shot up in value, and if the clubs were sold, the owners stand to reap fantastic capital gains. Tose had to pay \$16 million to financially troubled developer Jerry Wolman for the Eagles last year, but Wolman had only paid \$5.5 million for the team when he bought it in 1964. Dan Reeves paid \$100,000 for the Los Angeles Rams in 1941, and then sold part of his interest because of heavy losses. He regained full control for \$7.1 million in 1962 and today the club is said to be worth about \$20 million.

Also, Wolman didn't pay any taxes on the Eagles during 1964-68, and many owners get the same break under Internal Revenue Service provisions for Sub-chapter S corporations. The taxes are avoided by amortizing the players as a depreciable property. The average playing life is figured at six years. The Eagles, however, plan a new depreciation schedule this year allotting each team member a playing lifetime, which may stretch up to ten years or more. The result may be some smaller write-offs, but a nice stretch-out. The players, of course, aren't told what management considers their estimated usefulness to be.

The owners admit that there may be some prospective capital gains, as well as the other obvious tax advantages, but they claim that they bought into football to stay. They say the investment is like a stock you may have bought for \$1 and which has gone up in value to \$20, but which only offers the dividends of a \$1 stock and may not be marketable. "Could we realize a capital gain and still keep the Broncos in Denver?" Phipps asks. "Who might be willing to pay what the franchise should bring and is in Denver, I don't know."

The fact remains that most owners could probably sell out at a profit today. And the players get an average salary of \$23,000 for six months' work, and many have lucrative off-season businesses. But eventually, in a squabble over the golden egg that pro football has produced, it's the customers who will get hurt. This is already evident. Many clubs increased ticket



Superfan. Dallas Cowboy's owner Clint Murchison Jr. is the kind of all-out pro football backer who keeps NFL Commissioner Pete Rozelle (below) on his toes. Murchison goes to all Cowboy games, watches others on TV. He encouraged Lamar Hunt to move the competing AFL Texans to Kansas City, where they became the champion Chiefs. Cotton Bowl interests blocked a pro stadium, so Murchison is building his own bowl outside Dallas.



prices this year by as much as \$2.50 a game. In some cases, pre-season games were tacked onto season ticket plans to insure attendance, and at a higher price. To help build the Cowboys' new stadium outside of Dallas, bonds have been sold at \$1,000 apiece giving customers the right to buy season tickets within the 30-yard lines. But what about those fans who didn't have an extra \$1,000?

What makes professional football's quick expansion possible is television income. Rozelle thinks eventually there may be 32 teams operating in the league, including one in Mexico City. The marketing possibilities are endless. But there are others who feel that professional football already is way overpriced on television. For the first time this fall, fans will be offered an extended menu of Sunday games over CBS and NBC, and then Monday night games on ABC in prime time. Commercials on prime-time shows normally cost about \$45,000 a minute. But nationwide football time has been selling from about \$52,000 to \$70,000 a minute. For the Super Bowl, NBC is asking \$200,000.

And the question of audience share is an important item. Championships may draw the eyes of the nation, but the average Sunday game may only draw 13 million viewers, while 31 million will tune in on a Western such as "Bonanza" in prime time.

Will Fans With?

"This is the real test of saturation this year," says Chester Simmons, NBC's sports director. "We'll see whether people can take college football on Saturday, the pro doubleheaders on Sunday, the Monday night games, the highlights, the football specials and replays, all that, and come back for more. Is it going to be too much?" The TV men think they have an insatiable football audience, but they're worried.

"If TV couldn't continue to pay the bill," Murchison says, "we'd be faced with cutting back our expenses rather rapidly." He feels that audiences already may have a hard time following so many contests and he would prefer an industry of about 20 teams. That would insure a larger slice of television money for each club. And no one knows what will happen to the total pie when cigarette advertising on television is halted on Jan. 1, before the Super Bowl game.

Television and professional football may continue to move hand in hand to gather an even wider audience and add to the owners' fortunes. But is there anyone out there who remembers boxing? It made plenty of TV appearances, too. ■

Chrysler: "A Whole New Ball Game"

That's what Chairman Lynn Townsend calls today's auto business. Which means that problem-plagued Chrysler needs some new plays.

TO THE QUESTION: Can Chrysler come back, Chairman Lynn Townsend, who helped engineer its early Sixties comeback, quickly answers: "Chrysler has always been a volatile company."

Having steered Chrysler through a serious cash shortage this summer, he has set the stage for what he clearly hopes will be Chrysler's second comeback in a decade.

It was Chairman George Love, the Pittsburgh coal man, who made accountant Townsend, then 42, Chrysler president in 1961. And now it is Townsend who has tapped another relatively young accountant, John Riccardo, 46, to be Chrysler's president. Explaining the sequence, Townsend says: "This is a business for young men with young ideas and no preconceived notions. In a company like this you need this kind of rejuvenation."

Riccardo has lost no time. In his first week he shifted Philip N. Buckminster, who had been chief of the corporate staff, to head European operations and decided that Buckminster would live in Europe. Buckminster, in turn, has cut personnel sharply and is trying to consolidate Chrysler's three European subsidiaries: the former Rootes (England), Simca (France) and Barreiros (Spain). The eventual goal: to produce one common line of cars.

Then Riccardo reorganized the top Chrysler staff. The directors of product and market planning and of management organization and systems, the vice presidents for styling and of product development and purchasing, now report directly to him. "He is the key man," says Townsend. "He sits in much the same position that I sat in in 1961, '62 and '63."

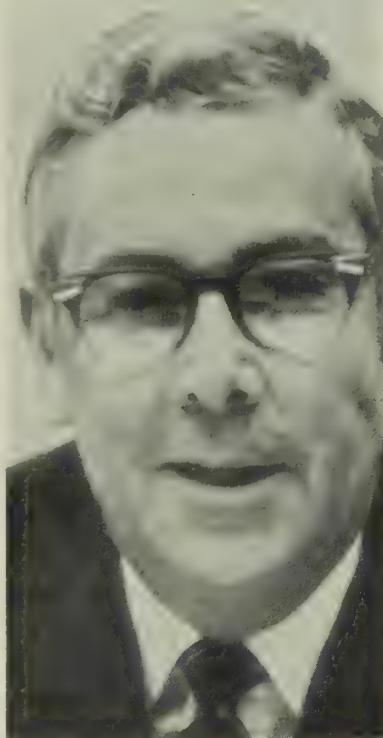
Obstacle Course

Riccardo's biggest challenge now is to make sure that Chrysler holds or improves its share of market. This fell from 18.4% of U.S.-built passenger cars in 1967 to 16.9% last year. With funds limited, Riccardo's options are narrowed so he has pumped the greater part of the \$350 million it invested in its 1971 models into intermediate-sized cars like its new Satellite line.

The move makes sense. Chrysler's compact sales are holding up well: Its Valiants, Darts and other compacts have some 35% of a growing market. On the other hand sales of standardized cars have been on a general decline in recent years.

But public acceptance of styling

changes is always a big question. And with Chrysler's sales of intermediates off some 40% for the year, public acceptance becomes critical. Townsend, however, professes optimism. He has constructed two bodies for his intermediates, one for two-door and one



Townsend of Chrysler

for four-door models. This, he says, gives Chrysler a significant styling edge: "This market will be a big increase for us next year."

Another question is Chrysler's strategy to counter the foreign imports which have now risen to 11% of the U.S. market. Originally Chrysler had said that it would start selling a U.S.-manufactured subcompact, code-named the "25", in the fall of 1971, a year after Ford began selling its Pinto and GM its Vega. Now the strategy has changed. Chrysler will strengthen the low-priced end of its successful compact line by adding the Scamp to its Valiant line and the Demon to its Dodge Dart line. Then in January 1971 it will start importing two new subcompacts, the Cricket from its English subsidiary, and the Colt which will be built by Mitsubishi Heavy Industries. Not until January 1972 will Chrysler introduce its own subcompact, code-named the "R-429."

Are these moves stopgaps to enable Chrysler to conserve capital? "Nothing could be further from the truth," argues Riccardo. The new strategy, he claims, will call for more capital outlay than the old; but it will produce a genuine subcompact rather than the scaled-down compact that the "25" would have been.

The Chrysler strategy is risky. If Pinto and Vega sales are strong, Chrysler could be left far behind.

On the other hand, Chrysler's subcompact strategy could work out to its benefit. Many question whether a U.S. auto company can make much profit on subcompacts. By proceeding slowly, Chrysler can monitor Vega and Pinto sales before committing itself. If domestic subcompacts fail to cut into foreign car imports, Chrysler could then beef up its own Colt and Cricket imports and delay its own subcompacts further. Riccardo doesn't think the Detroit subcompacts will wipe out the import market. "We think there will still be a sizable market for foreign cars," he says. "Part of the psychology of the foreign cars' success is snob appeal." People who wouldn't drive to their country club in a Detroit small car, says Riccardo, might appear in an inexpensive foreign car.

The Big Picture

On top of all this, Chrysler faces the questions that cloud the outlook for the entire auto industry: economic conditions; the safety issue; the pollution problem; not to mention the possibility of a strike this month. Even the basic notion of what a car represents is undergoing change. "The status symbol isn't as important as it once was," says Townsend. "It's made a whole new ball game. The 1970s will not resemble the 1960s."

All these uncertainties create problems for the automobile industry, but for smaller Chrysler, roughly two-thirds the size of Ford and one-third the size of GM, they create more problems than for anyone else.

"Chrysler," says Townsend, "has had a history of working out its own destiny." And so it has. But times and conditions change. As Townsend introduced his gleaming new cars at the Pittsburgh Hilton last month with movies featuring leggy women, crashing surf, rugged mountains and unspoiled prairie, traffic was piling up a hundred yards away in Pittsburgh's Gateway Center. And the city of Pittsburgh called a smog alert. ■

Actions Speak Louder

Here's a pleasant switch: A company boss who doesn't promise much but delivers big.

"ONE THING about Great Northern," says Peter S. Paine, chairman of New York's \$427-million Great Northern Nekoosa Corp., "we don't promise things that we can't deliver. A lot of companies used to promise a 20% increase in earnings every year, ad infinitum. But the paper business is a mature business, and I don't think you can expect a growth rate such as International Business Machines has been able to establish."

Promised or not, in the eight years since Paine took over the company Great Northern has turned in one of the best records in the giant paper industry. Last year, it netted nearly 9% on its \$176 million in sales, earned better than 10% on its stockholders' equity, and reported a net profit of more than \$15 million, nearly 3½ times the \$4.4 million it earned as recently as 1964. Even fast-growing Boise Cascade managed not much more than a fourfold increase in earnings over the same period. This year, when every major paper company save Union Camp has reported a decline in first-half earnings, Great Northern (became Great Northern Nekoosa through a late March merger) reported a 16% increase in earnings (to \$10.6 million) on a 6% gain in sales (to \$179 million).

All this Great Northern has accomplished without diversifying into cast iron or furniture, building materials or resort development, as some of its colleagues have done. What Great Northern has done is what businessmen have always done: exposed itself to the risks and rewards of its own business.

Diversify, or Die!

In the late Fifties, as Paine frankly concedes, Great Northern was nearly flat on its back. Rising competition had squeezed it out of its traditional Southern newsprint markets. Four of the paper machines at its Millinocket, Me. headquarters were idle for lack of business. Great Northern set about converting a portion of its newsprint production into higher-priced, higher-profit groundwood specialties—papers used in items like catalogues, telephone books, paperbacks. "Our guys went out and developed customers for specialty groundwood," Paine says. "They went to people who were using other kinds of paper and said, 'Can't we get you a sheet of groundwood that will do what you want? It'll cost you less.'" Today groundwood specialties are shaping up as a major market, and Great Northern Nekoosa is the world's largest producer.

A few years later, Great Northern launched an even more venturesome project. In Cedar Springs, Ga. it began building a mill to produce linerboard for independent box makers. Most knowledgeable papermen predicted the big paper companies that made their own boxes would cut Great Northern to ribbons. But Great Northern figured the independents would buy from them rather than from their integrated competitors whenever they could. Great Northern was never more right. As it moved into linerboard, its earnings doubled in just two years. Once a newsprint producer exclusively, Great Northern had become a leading factor in both groundwood specialties and linerboard, which are two of the paper industry's fastest-growing products.

Early this year, Paine and GN moved off in a different direction entirely by engineering a merger with Nekoosa-Edwards, a front-ranking producer of business and commercial papers. The two companies possess entirely different operating and technical skills, serve entirely different markets. But as Peter Paine sees it, this is the special strength of the merger: It is a simple move for diversification and is not predicated on any hoped-for "synergy." "I believe most mergers are bearish," Paine says. "There is usually a management shakeup that can result in destroying the management team, and the heralded earnings through consolidation often turn out to be illusory."

Is Lead Really Good for Us?

Its principal product is taking a terrible beating from the clean-air people, but Ethyl Corp. is fighting back.

THE WORD "but" is potent. It can cancel out, it can even destroy the strongest phrase. Take the key "but" in recent advertisements run by Richmond, Va.'s Ethyl Corp. "Let's do something about pollution," the advertisements shout, and then comes the "but": "But let's do the right thing."

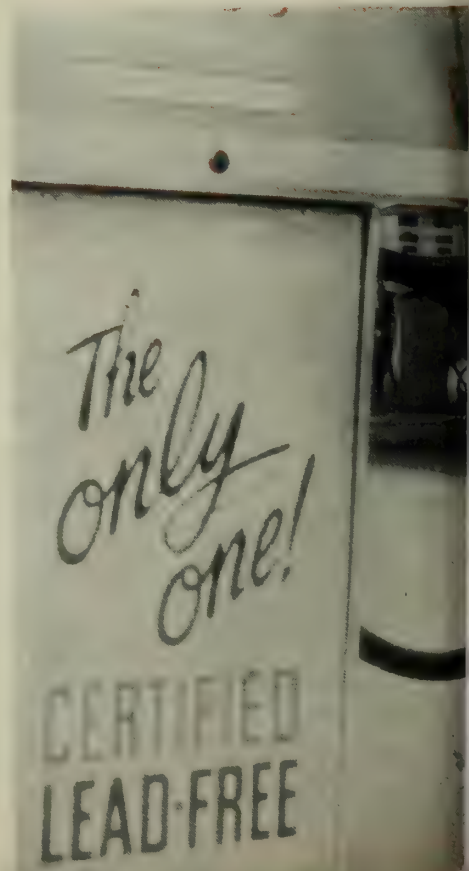
The "right thing," according to Ethyl, is to leave the lead in gasoline. "Taking the lead out of gasoline can increase more than the price," Ethyl goes on. "It can increase the smog."

Of course, taking the lead out would also play hell with Ethyl's profits. Ethyl makes tetraethyl lead, the leading antiknock gasoline additive. It depended on it for almost half of its net profits last year—about \$14 million out of \$33 million. Use of these additives is the cheapest way to raise gasoline octane for today's high-compression

automobile engines. It also—according to most experts—pours lead into the atmosphere and causes potentially serious pollution. Not surprisingly, Ethyl eagerly seeks evidence that most of the experts are wrong. Hence the advertisement.

Ethyl, in its defense, points to a Bureau of Mines study published in May. The study indicated that high-octane gasoline made *without* lead emits unburned hydrocarbons and nitrogen oxides from the exhaust pipe which in the presence of sunlight are 25% more likely to cause smog than the same octane produced by tetraethyl lead. "Dammit, we felt the public ought to know that taking the lead out increases smog 25%!" says Ethyl executive vice president, Lawrence E. Blanchard Jr.

Is Ethyl's "but" justified? Is it on

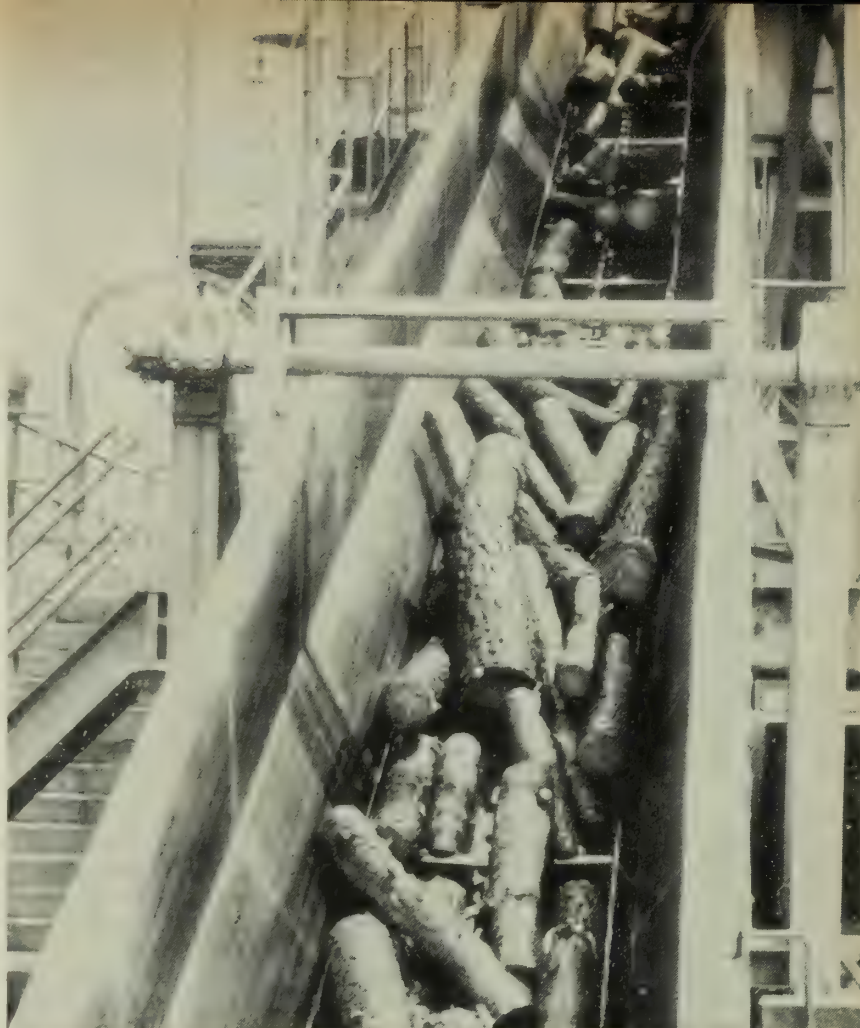


Great Northern Nekoosa, however, has none of these problems. There are no consolidation savings and no management conflicts. The two companies, in fact, will remain separate operating entities. Then why merge at all? "It gives us more choices in our future capital programs," Paine says. "Now that we've got all these products, we'll be able to move more intelligently." Samuel A. Casey, Nekoosa's president will become president of Great Northern Nekoosa this fall.

After 1970, What?

Between inflation and high money costs, Great Northern Nekoosa has for the time being at least come to the end of its big earnings gains. GNN's normally poor third quarter should be poorer than usual this year, partly because last year's 25-cent investment credit will be absent. The fourth quarter, however, looks slightly more promising. "I don't know if it will put us ahead for the year, but it will be close," Paine says. "Now that we've got a bigger base than we used to have, we won't have a sudden dramatic doubling of earnings over a two-year period." In a year like 1970, though, there's nothing wrong with merely matching the year before.

What about the longer future? "My guess is that the paper industry is going to grow at 4% or 5% annually," Paine says. And he adds with what is for him almost a promise: "I don't see why Great Northern Nekoosa can't do a little better." ■



Payoff. Designed to serve the booming market for business papers, Great Northern Nekoosa's new \$50-million mill at Ashdown, Ark. (above) piled up heavy start-up costs in 1969, paid off handsomely this year.

sound ground? It depends on who you talk to. "Well, you can understand their position," chuckles a spokesman for one oil company, "but this is absolutely unproven." Taking the lead out of gasoline will cut back on unburned hydrocarbons by 15% to 20% for starters, says he. How about the Bureau of Mines test? It in no way duplicates real world conditions, the oilman says.

The Federal Trade Commission has set for itself the unenviable task of finding truth amid all these claims and counterclaims and of punishing misleading advertisements.

Behind the claims and counterclaims, a far simpler economic struggle is taking place. To put it bluntly, Ethyl probably is fighting a delaying action in the hope that it can postpone the inevitable decline in lead sales as long as possible.

How long *can* they delay it? Certainly not for an indefinite period of time. Pollution is much too potent a political issue, and, whatever Ethyl's advertisements say, the evi-

dence is against leaded gasoline. And the day is not far off when car engines will be built for no-lead gas.

In its delaying tactics, however, Ethyl may get some support from the public. A number of oil companies have been selling low-lead and no-lead gasoline at premium prices. In nearly every case, sales have been disappointing.

Annoying People

Says one industry analyst: "Tell me, who in his right mind is going to pay a couple of cents a gallon more for a gasoline that is worth less?"

There are even signs that the no-lead sales pitch by gasoline marketers may have unexpected negative repercussions. "Suppose you drive into an Amoco station to buy no-lead gasoline," the analyst goes on. "You pay 3 cents more than regular and you get 91 octane. Many cars simply don't run as well on 91 as they do on leaded 94. I've spoken to some Amoco dealers who have actually been discouraging people from buying no-lead gaso-

line because these people later tend to get annoyed with what they think is inferior gasoline."

And there, of course, is Ethyl's secret weapon. Meanwhile, Ethyl is casting about for major acquisitions that will ease the pain of *eventually* declining lead sales. While merger talks with ailing White Motor were broken off in May, Ethyl is still looking. It has a cash hoard of over \$123 million (boosted sharply in late 1968 by the \$55-million sale of ailing Albemarle Paper, the original Floyd Gottwald takeover vehicle), and people with cash count for a good deal in today's merger market.

As a final touch of irony, Ethyl has gone into its customers' business in a modest way with a one-sixth interest in the recent Dutch North Sea find by Tenneco. Not surprisingly, the find has been dubbed "Ethyl's revenge" in the trade.

You can't take its advertisements too literally, but you must admit that Ethyl is fighting a very skillful battle for survival. ■

Fashion: Does the Midi Look Spell E-d-s-e-l?

"So the next time a girl walks down the street in a midi skirt, she should know what many men feel. Not just that she is rather uninteresting in an esthetic sense, but that the purchase of that dress or skirt also reveals something of her character. It tells us that she is frightened of her own

judgment, a slave of commercially inspired tastemakers, and a woman whose mind must be certainly as dull as the blah years of the 1950s which inspired her clothing. Ladies: resist!"

—Columnist Pete Hamill, N.Y. Post, Aug. 24, 1970

IN THE newspaper advertisements for women's clothes last month it was midi, midi, midi. But on the streets and on the customers' backs it was still mini, mini, mini. Columnist Pete Hamill spoke for millions of men when he wrote as he did above. A New York suburban housewife spoke for millions of women. After watching a TV movie of World War II Nazis swashbuckling in ankle-length, tailored greatcoats, she exclaimed, "Now I see. That's where they got the ideas for those horrible new styles."

On Seventh Avenue, they're already beginning to speak of the midi as the Edsel of the Rag Business.

The new styles could not have come at a worse time. What with the recession and worry about inflation, the dress business was already hurting. Intended to hypo business by ob-

soleting existing fashions, the new look seems to have made it worse.

Take the case of Originala, Inc., a smallish, publicly owned fashion outfit. Originala had a meteoric rise in the last decade, from sales of \$2 million to \$16 million, from earnings of 31 cents to 90 cents. But in the latest nine months its sales were down 9.5%, its profits down 38%.

"The uncertainty about length has been our primary problem," says Irving Bader, president of Originala. "This is a fashion revolution, a fashion storm, and until the situation becomes clarified, business will not be up to normal."

Bader explained that when the news came out that the hemlines were dropping, the retailers got badly burned in the spring and stopped buying. Caught with large inventories of short skirts, retailers got "supercautious" about buying for the fall. This "wait-and-see" attitude slowed new orders down the line. Sidney Prince, executive director of the United Better Dress Manufacturers' Association, says that his contractors' payrolls, which were down 25% in the second quarter, would probably be as bad in the third quarter.

In turn, as fall came on, even those manufacturers going into the new lengths were playing it very cool. Jonathan Logan President Richard Schwartz, for example, was devoting only 15% of his firm's production to the midi. Bill Thomas, of Susan Thomas, was banking on pants and pants suits which make up "50% of our business." Confused and repelled by midis, more and more women turned to pants. The other alternative to the midi or pants is the mid-knee length. (See picture spread, p. 34). Seventh Avenue people think pants may be the consumer's ultimate compromise in deciding what to buy. "Only about 10% of our

dress production is in the straight midi," says Thomas.

Russ Togs' President Eli Rouso was covering himself, as he put it, with 1% production devoted to the midi, but with most staying close to mid-knee. "We'll see what happens," says Rouso. "If they want it, we've got it. If it goes, we'll make more of it." At last report, Rouso was still playing the "wait-and-see" game. He was even set to blast the midi in a speech for The New York Society of Security Analysts last month.

Some fashion leaders, however, are clearly in trouble. New York's Fifth Avenue stores, California's 33-store Joseph Magnin chain, Dallas' Neiman-Marcus and Chicago's Marshall Field have shucked the mini. They have been putting on a vigorous advertising and promotion push for the longer



On Her It Looks Good? As a pre-World War I Austrian military cadet, Erich Von Stroheim, later a Hollywood Great, sported a German army-type, ankle-length greatcoat; World War II Nazis swashbuckled in similar styles: buttons ending at waist (to facilitate goose-stepping); slit pockets; flared coats. Look familiar? Of course, the inspiration for today's "new" lengths.



length. So far to no avail. But they aren't giving up. Not yet. William M. Fine, president of New York's Bonwit Teller, even put out a memo to employees urging them to come to work in midis, not minis. So did Andrew Goodman, president of Bergdorf Goodman, Fine's competitor on the other side of Fifth Avenue.

On the West Coast, the I. Magnin chain is subsidizing saleswomen who wear long skirts. It gives them 50% discounts vs. the usual 25%.

For all their efforts, these retailers may well have an Edsel on their hands. Rudi Gernreich thinks so (see p. 30). The London experts think the midis and grannies will make some inroads, but won't sweep the scene (see p. 29). Thus the long look won't do what was intended: obsolete existing wardrobes and reverse the declining fashion business.

The simple fact is this: Today's women will not be stampeded.

The women's liberation movement may have something to do with it. So does unisex and the continuing trend toward casual wear. Above all, the big move in fashion has been toward greater freedom, and the long skirt is, both physically and psychologically, binding. "The longer-length clothes are an unhappy fashion," fashion designer Pauline Trigère has been quoted as saying. "They're against everything modern."

Women's Wear Daily, the lively newspaper of the garment business, continues to beat the drum for the midi length. On July 27, it wrote: "An entirely new fashion look is what is needed by a depressed American retail and fashion establishment Starting in September women's clothes everywhere are going to look entirely different. It will be the woman in the miniskirt who will be the fashion exception." But the American woman, rebelling against high prices and unneeded obsolescence, against being dictated to, doesn't much care what the retail and fashion trade needs.

There already are severe recriminations within the business itself. Some fashion arbiters, on one hand, claim that many retailers and much of the Seventh Avenue crowd have had their heads in the sand and are afraid of change. Gordon Morford, publisher of *Harper's Bazaar*, for example, says that the whole long look has been coming on for some time. "For those in the fashion business, the midi is nothing new," Morford told *FORBES'* Nancy Jennings. "We predicted it as far back as the spring of 1968 in a modest way."

Morford, in fact, accuses some of the garment manufacturers, representatives of most of the media and "cer-

tain" retailers of simply being too slow to catch on to the midi and put it across in acceptable fashion.

"A lot of the newspaper and other presentations of the midi have been most unfortunate to say the least," says Morford. "When the press photographs a woman standing in a midi, with her legs eight inches apart while she is eating an apple, she is going to look like a slob."

But one Seventh Avenue veteran put it very bluntly. He won't be quoted because the pressure to conform is too great. Off the record he says flatly: "The whole thing is a terrible mistake. The sons-of-bitches who think they dictate everything have rammed it down our throats." Somewhat belatedly, and at great cost to the dress business, the fashion dictators are learning that the world is changing. ■

Slaughter on Seventh Avenue?

REPORTS *FORBES'* London Bureau: London, the city that invented the mini, still has the miniest skirts you will find anywhere in the world, except, perhaps, in Equatorial Africa. London isn't rejecting the new midi, but it isn't going wild over it either. The girls wear minis, midis, maxis, grannies and pants. London women under 30 wear them interchangeably and in combination, depending on the weather and on the mood they're in when they awaken in the morning; a mini one day, a midi the next; in winter, a maxi coat over a mini dress; in spring and fall, a mini over pants.

This is the London Look, and London fashion experts are certain that American women eventually will adopt it. For that reason, they say, if Seventh Avenue puts all its chips on the midi, "it will catch pneumonia."

The certainty stems from the fact that in recent years, London has set the pace for New York, Los Angeles and San Francisco in fashion. Legs were as familiar as lips—even in staid London banking houses—long before the first minis appeared in Fifth Avenue shop windows. The midi, which now has Seventh Avenue in such an uproar, made the London scene on Carnaby Street, the birthplace of the mini, and on King's Road, which has joined Carnaby Street as the fashion center for London's swingers. It made the scene but it doesn't dominate it.

London designers no longer worry particularly about skirt lengths. They adopt the attitude of Mary Quant, the high priestess of the London fashion world, who two years ago told *The Financial Times*, "I'm tired of all this

tizzy about the hemline. . . . All these lengths are there for us all to flirt with whenever we like."

A quick survey of London secretaries the other day indicated that Miss Quant's attitude is good business. Said one: "I'm wearing a mini today. I just felt like it. I have midis, too, and I have a couple of grannies that I wear every now and then when I'm in the mood."

Curiously, the midi started with the young, not with the middle-aged ladies who once decried short skirts. In London and the provinces the midi is still primarily a fashion of the young. Women over 30 resist it. Three years of experience in selling midis have demonstrated this. The stores where the midis have been snapped up are the stores that cater to young people like Fenwick's, Selfridges, Harrods. Stores with an older clientele have been stuck with midis when they stocked them.

There are several explanations for this youth-age discrepancy. Explaining why the very young wear midis, Christopher Fenwick, director of marketing and development at Fenwick's, says: "Mary Quant busted things wide open when she introduced the mini. The mini became the fashion of the permissive society. Wearing a mini became a way for girls to show their independence of the old taboos in dress. All right, the girls have now made their point."

As for the older ladies *shunning* midis, Sheila Black, of *The Financial Times*, who specializes in finding out how people spend their money, says: "Older women are resisting the midi because the mini is the first fashion in generations that makes an older woman look young. In the Thirties, an older woman who dressed to look young was ridiculed. People said she was 'mutton dressed as a lamb chop.' Times have changed. It's all right for an older woman to want to look young."

"Now, a woman who actually is young doesn't have to *dress* to look young. She can wear a midi or a granny. If you're a grandmother, you don't want to wear a granny."

It's generally thought by London retailers that young women are the big market for clothes. That, they say, is why the mini caught on. Miss Black, who has made studies of who spends what, says this isn't so, that the older girls went strong for short skirts, too. In fact, she says, the real buyers of clothes are the older women. "Women under 30 are responsible for only about 35% of the buying," Miss Black says. "After a woman gets married, she curtails her purchases of clothes for a while, but after 40, women start buying again. They are a big market."

Until now, New York has followed the London fashion pattern, and the rest of the U.S. has followed New York. If this happens again—and there's no reason to believe it won't—manufacturers and retailers, who bet their all on long skirts, are in for a sad surprise. They will find themselves smothering in minis. The young people may buy them, but the older

women, who are responsible for the bulk of clothing sales, won't. They'll continue to demand minis.

"And you know," says Miss Black, "you can't take up the hem of the midi. It's not cut that way.

"There will really be slaughter on Seventh Avenue. If a manufacturer doesn't offer a mixed line, he'll go bankrupt."

Everything was all "in" at this year's Royal Ascot, Britain's Kentucky Derby.

"Fashion Will Go Out of Fashion"

ELLEN MELTON of FORBES' Los Angeles bureau is an exceptionally perceptive reporter: Just 13 months ago, when women's liberation was still an obscure movement, she alerted FORBES readers to a coming revolt of women (*As I See It*, Aug. 1, 1969). The article was widely reprinted. Last month Miss Melton talked with Rudi Gernreich, the West Coast fashion designer, whose topless stunt of a few years back foreshadowed the no-bra and the natural look. Gernreich, for all his flamboyance, is an intelligent and thoughtful man. He told Miss Melton that he sees real trouble ahead for the fashion business.

How do you feel about the midi?

GERNREICH: I'm very against it. I feel it's a forced issue that is totally wrong for now, because it's contrary to the liberation of women. The midi is a throwback to a time when woman was not emancipated, and for that reason alone it just isn't logical. It's a reactionary kind of industrial imposition on what people really are feeling.

By emancipated, do you mean physically, that today women are more active?

GERNREICH: I mean emancipated in all areas. The midi is psychologically as well as physically restrictive. Actually, we're moving much more toward a unisex-oriented style picture. I think pants are much more legitimate for women to wear.

Are you lengthening clothes at all?

GERNREICH: No. The things I'm designing for Harmon Knitwear—I've stopped producing myself—are either mini or pants, mostly pants.

Will the midi be a failure?

GERNREICH: It certainly will be a short-lived thing because it's definitely imposed, all over the world.

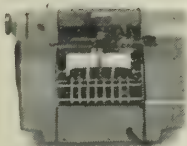
Could it be a class phenomenon, something bought only by the wealthy?

GERNREICH: There is something to that. The really wealthy woman who is involved with a certain special kind of life is still very haute couture oriented, and will probably feel that in order to be in style she has to wear it; whether she likes it or not, she will just accept it.



**It can't answer your phone,
wait on customers,
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Danger? In a poor society, people often show their prosperity by what they put on their backs. Will an affluent society eventually lose interest in this kind of display? Some sociologists think they may—such predictions have the garment industry worried. *Straw in the wind:* These young people (above) express their individuality by dressing in cast-offs, including Army surplus uniforms and other iconoclastic goodies.

What has been your observation of the general acceptance of the mid-length style? I've seen one here, at Saks. . .

GERNREICH: I think it's more worn in New York and in Paris.

Are you saying that fashion designers will no longer be in a position to dictate what most women will wear?

GERNREICH: I think the impact of the

name designers is practically over at this point.

Why?

GERNREICH: It's an independence—people just don't like to be dictated to in any area, so why should they be told what to wear by a bunch of designers?

How about haute couture?

GERNREICH: It's dying. It applies to a

smaller and smaller group of people constantly. Haute couture is really synonymous with Paris fashions, and if you look at all the great French houses, you'll see that they're paying more attention to their ready-to-wear collections than to their couture collections. They have to because they can't exist on haute couture anymore.

But you indicated the wealthy are still loyal to haute couture.

GERNREICH: To a diminishing degree. And not because they cannot afford it; their attitudes are beginning to change. A very contemporary type of woman today who is involved with more serious things feels a little tacky flaunting a terribly expensive wardrobe; she just won't feel right, and more and more people are like that.

Some of your former customers, for example?

GERNREICH: Very definitely. Many women who used to spend a lot of money on clothes are just not interested in doing that anymore.

Were you serious about the hairless look?

GERNREICH: That really was an abstracted idea of what might happen in the future, around the year 2000. It has nothing to do with right now. It was a projection of what might possibly happen, based on what we know scientifically the world will be like.

Did you abandon most of your designing because of a boredom with fashion or a repulsion with the midi?

GERNREICH: No, it was based on what I've just said. The clothes I was producing myself became too expensive; I didn't want to cater to the very small percentage who could afford them. At the knit house I work with, the prices are logical for today, they're not out of line. This was primarily why I did it. It has to make sense to me; and what I was doing in my own production started not to make sense.

Where will skirt lengths settle?

GERNREICH: I couldn't predict. It's still so volatile—it's all over the place. I see no particularly strong trends toward any one length.

If you're right, this is a major break from the past, when fashion dictated and women just fell in line.

GERNREICH: Of course. Fashion will go out of fashion. ■



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Which Style Will Prevail? Many men—and women—plump for the mini; the fashion establishment is pushing the midi or the maxi (as in Henri Bendel's fall outfit at right); many women, confused, are settling on the pants suit, not unlike the one worn by the Eastern Air Lines hostess (above right). Take your pick.

All of which adds up to a defeat for the fashion dictators who decreed: midi or nothing. In fact, some of the smarter stores have bowed to fate: Manhattan's Peck & Peck proclaims in its window: "We have all lengths . . . including miniskirts." And in a recent advertisement, Lord & Taylor, the high-fashion specialty store, said: "The day is past when the American woman can be told what to wear. . . . This season it's not what they're wearing, it's what you're wearing. . . . Yes, you'll see longer skirts, longer dresses, longer coats. . . . But that doesn't mean you juniors can't wear your favorite above-the-knee length. Lord & Taylor has them all."

Quite a break with the midi-or-nothing decrees!





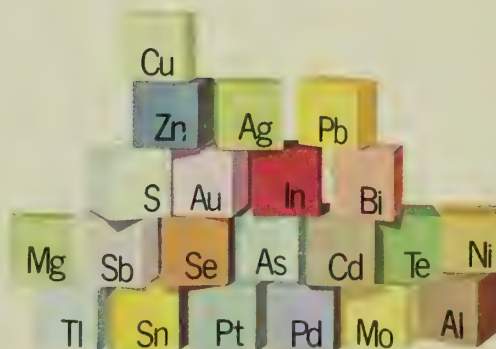
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Up and Down with Newton Glekel

His corporate empire is in trouble these days, but pity not Newton Glekel.

WHEN THE ANNALS of the Great Hot Stock Market are written, the name Newton Glekel will have a place. What kind of place? Well, let's say an almost unique place. While others were riding high on glamour stocks, Glekel was riding high on the most mundane kind of companies. His biggest holdings were in ladies' ready-to-wear establishments and in a big Detroit meat and sausage company. With Glekel behind them, Beck Industries (shoes and clothing) and Hygrade Food Products (meat products) put on spectacular performances. In 1968 Beck zoomed from 5½ to 40, Hygrade from 19½ to 83.

And today? Well, what can you expect from hot stocks in a cold stock market? Hygrade was recently at 14. Beck was down to 4 and a fraction—before trading was suspended in July. But it was a nice ride while it lasted.

Actually, Glekel's corporate ride started nearly 15 years ago. Until he was 40, Glekel was a New York real estate man and lawyer. After running a couple of small companies, he got control of a smallish delivery-truck maker and, chiefly by acquisition, built it into a \$100-million-a-year maker of school bus bodies, hearses, ambulances and mobile homes, Divco-Wayne Industries.

In 1967 Glekel and Chairman Harold Drimmer sold control of the company to Boise Cascade. They traded their holdings for Boise shares; a few months later Boise made an offer to the rest of Divco-Wayne's shareholders and ended up owning the company. In addition to \$8 million or so worth of Boise stock—most of which he has since sold—Glekel got another goody: a \$1-million, five-year contract at \$200,000 a year. It was called an "employment, consultation and non-competition agreement." Glekel is still drawing \$200,000 a year under it. Asked about the contract, a Boise spokesman admits that, to date, Boise has not "consulted" with Consultant Glekel since he left Divco-Wayne.

Onward

Did Glekel then retire on his laurels? Not at all. He bought 10% of the stock of another company, A.S. Beck Shoe Corp., a retailer. But Glekel wasn't just going into the shoe business. Beck began making acquisitions of small retailers of all kinds of apparel as well as furniture. Beck, now renamed Beck Industries, soared on the American Stock Exchange. With Beck's stock price high and his fame

spreading, Glekel was able to acquire 29 companies for Beck Industries, paying with cash, stock and debentures. In two years, Beck's sales went from \$56 million to \$201 million.

Late in 1968 Glekel negotiated to buy control of Hygrade Packing from the Slotkin family, which controlled it. He and his associates bought the



Times Change. Speaking of Beck Industries, Newton Glekel says: "In the climate of the times [1968] the company was a good investment."

Slotkin's 23% interest at about \$40 a share. Hygrade was closing old, inefficient plants and pushing sales of processed meats vs. lower-margined fresh meats. Investors were buying. Hygrade stock soon was 83.

On his way to the top of stock charts, Glekel had some big-name backers. Brown Brothers Harriman was a big holder of Hygrade stock for customer accounts. Manufacturers Hanover Trust Co. bought \$6 million in Beck debentures, convertible

into common at \$26.11 a share. John Hancock Mutual Life Insurance bought \$4 million in debentures that were convertible at \$29.78 a share.

But where is Newton Glekel's talented touch now? It seems to flourish chiefly in bull markets. Last July, with Wall Street in the grip of the Bear, Beck had to drop a plan to raise \$15 million through F.I. duPont, Glorie, Forgan & Co. On July 10 the American Stock Exchange stopped trading in Beck shares. Beck said it requested the suspension while it was negotiating changes in its financial structure. A week later, the company's president Charles F. McDevitt, who had been hired to help make acquisitions, resigned.

Since then Beck has sold several of its properties, including Judy's Merchandising and Watkins Furniture, using the cash to pay down some of the \$30 million in long-term debt it incurred in its expansion and acquisition program. Late last month two of the acquired companies filed Chapter XI bankruptcy petitions. They were H. Liebes & Co., a San Francisco-based women's apparel retail chain, and Peddler's, a Midwest women's wear chain.

Dilution Ahead?

Beck has other troubles. On four different acquisitions—Wilson Shoe, People's Furniture, Webster Clothes and Hartog of California—Beck guaranteed that the Beck stock it issued would be worth so much at a certain time. If it weren't, Beck would issue additional stock. On the Wilson Shoe deal, Beck may have to issue as many as 263,154 new shares—an 8% dilution based on the number of Beck shares now outstanding. Beck says no figures are available on the possible dilution from the other three agreements, but that the three combined represent considerably more potential dilution than the Wilson deal alone. Glekel is trying to get all of these agreements changed.

Brooklyn-born Glekel now dwells in a lavish apartment on Park Avenue and eats lunch at fashionable Manhattan restaurants like Twenty One. To be sure, he has taken a sharp paper loss; his Beck and Hygrade shares are worth only \$3 million, not the \$20 million they were worth at the top. But he's still living high; he's getting the \$200,000 a year from Boise.

Some of the banks and investment houses that followed Glekel must be unhappy. So are many individual in-

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vestors. But perhaps the unhappiest of all are some of the entrepreneurs who sold their businesses, fruits of a lifetime of hard work, to Beck.

Take Marcia and Lawrence Israel. They sold their Judy's women's apparel chain in California to Beck last year for \$8.6 million in cash and debentures. Last month they bought Judy's back by cancelling the remaining \$4.6 million in debentures and paying an undisclosed amount of cash. Lawrence Israel says: "We were lucky. We had senior debt and cash." Israel implies those who got common stock were not so fortunate.

Another who sold his company to Beck and then got it back again is Jack A. Buller, president of apparel maker Romy of California in San Francisco. "We exchanged stock," says Buller. "Beck guaranteed to buy its stock back in 15 months for cash. We exercised our put, but they didn't have the cash. So the acquisition was rescinded." Buller still has a real complaint: "We lost a few million dollars. We could have sold to somebody else. We picked the wrong company," he says. Will he sell again? "Oh, yes—if somebody has cash."

Plain Stung

The Israels and Buller, though, are sitting pretty compared with those who took Beck stock without guarantees. Take Howard Silver, 66. He thought he had set up an estate for his children by selling Watkins Furniture Co., Cleveland, to Beck for preferred stock then convertible into Beck common at \$26 a share. Beck has since sold Watkins to a third company to raise cash, and Silver has cancelled his Watkins employment contract.

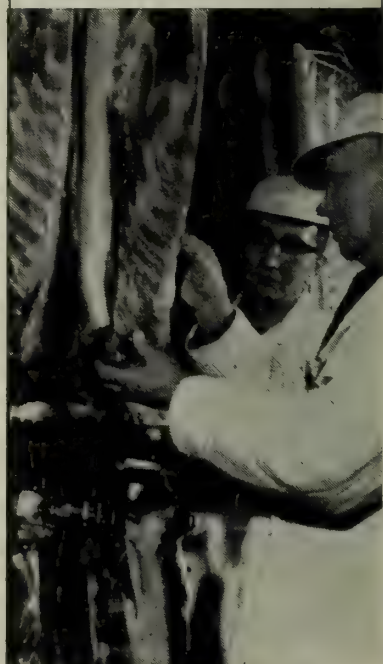
And what does Newton Glekel say to all this? He is quite philosophical: "I wonder sometimes whether a man is a product of his ability or a product of the times. The day Nixon was elected we all should have realized he was going to try to shrink the economy and end inflation. It was time to pull in your belt and start working under the old Puritan ethic, 'don't spend anything until you have it in your pocket.'"

What about the minority stockholders? And those who sold their businesses to Beck? "I feel tremendous responsibility," he replies. "That's why for nine weeks I have worked practically day and night."

And that's where the matter now rests: Newton Glekel feels bad and a good many people who invested with him feel poor. You can blame the whole thing on the Puritan ethic—as Glekel does. Or you can ask whether his financial touch ever was quite what it was cracked up to be. ■



False Hope. Newton Glekel is not the first to try to turn around a lowly meat packer. It looks so simple: Improve those low profit margins just a fraction and earnings will soar. The result of past efforts? Well, the industry's margin still hovers near 1%.



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Where Are the Fat Years?

Both Texas Gulf and Freeport have been scrambling to diversify. And with good reason; coming up is the biggest sulphur glut in history.

THERE'S one thing about lean years, the fat years are never far behind, or that's the way the sulphur industry has tended to view the recurring swings from shortage to surplus that have beset it through most of its history. But what worries most sulphur men these days is that the industry has been in a state of oversupply for three years now, ever since 1967, and there's no end in sight. Even Texas Gulf Sulphur and Freeport Sulphur, which produce almost 90% of the U.S.' 7.1-million-ton output of mined sulphur, grow a little peevish these days when you ask what their prospects are. "The sulphur business is very profitable," says Texas Gulf President Charles F. Fogarty, "though it is not as profitable this year as last year. I wouldn't predict it beyond next month."

The fact is, that though the U.S. Gulf posted price is down only \$2 a ton from the \$42-a-ton peak in 1968, sulphur sells in the U.S. for under \$27 a ton, in Rotterdam for \$22 a ton, and in Vancouver for as little as \$15. What worries producers everywhere is that there's every reason to think that the situation is going to get worse. Much worse. And the haylcon days of high sulphur earnings are over.

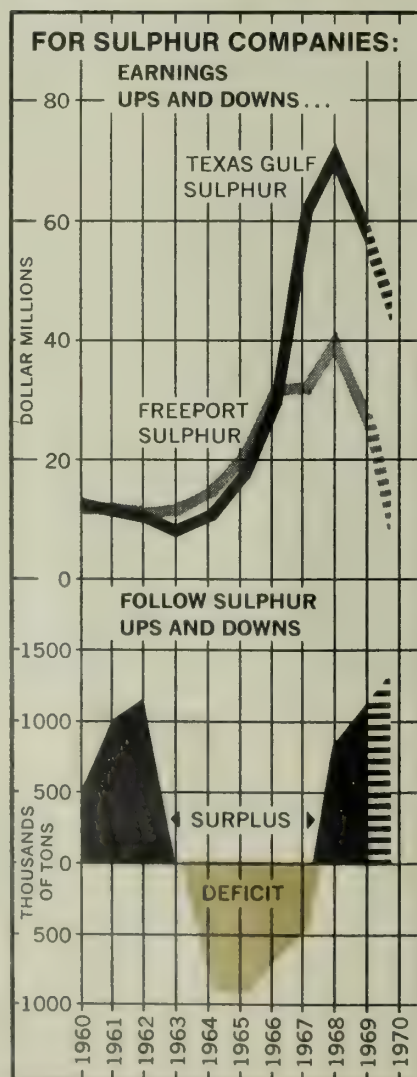
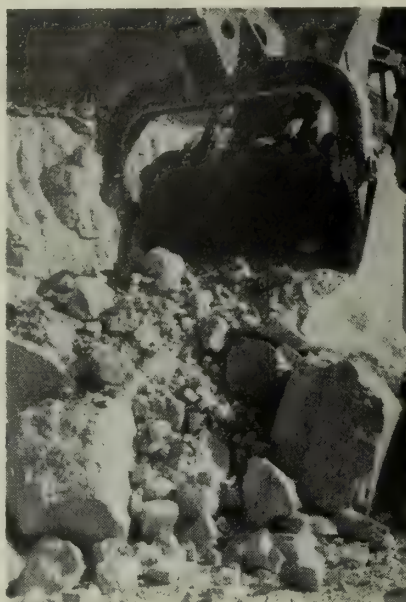
Selling By-Products

In the grey light of the morning after, the industry has begun to take a sober second look at its market prospects. The big growth in demand was powered by fertilizer, which absorbs a good half of the world's sulphur output. But where a few years ago experts were predicting a 100% gain in fertilizer consumption over the next five years, most have now lowered their sights. By 1975 the Tennessee Valley Authority estimates, world consumption will rise only 50%, with consumption in Europe, the U.S.' chief export market, up a mere 18.4%. That's only the half of it. Phosphate fertilizers account for about 40% of sulphur demand and these are the weak sisters of a weak industry. The TVA can do no better than a 44% worldwide growth forecast for phosphate fertilizers by 1975.

Putting it all together, Texas Gulf's market research manager, Dr. Serge Levitsky, predicts that sulphur consumption will rise only 1.5 million tons annually.

But look what's waiting to meet it.

As prospective demand has eased off, a flood tide of low-priced sulphur has begun to move into the mar-



ket. In response to the demand for low-sulphur fuels as a means of curtailing air pollution, producers have begun building desulphurization facilities to remove sulphur from oil and natural gas, and this has already brought enormous quantities of by-product sulphur into the market. Thanks to the expansion of sulphur recovery facilities, Canada, for instance, expects to increase its capacity by 57% or 3 million tons by the end of 1971.

Oil desulphurization in the Persian Gulf, Japan and the Caribbean will add another 2 million tons. And as if that weren't bad enough, Poland, which has been dumping low-cost sulphur on the world market, is expected to expand her exports by another million tons by 1971. In the U.S., Duval Corp., a subsidiary of Pennzoil United, recently brought 1.5 million tons of capacity on stream at a vast new low-cost deposit in Texas and already plans to expand it to 2.5 million tons. All told, the known additions to the world sulphur supply come to 9 million tons over the next five years. But that isn't all. Prospective additions from the Soviet Union, West Germany, Italy, Mexico, oil desulphurization and even stack-gas desulphurization could easily add another 9 million or more.

Never Look Back

If the handwriting is on the wall, Texas Gulf and Freeport long ago read it. Since 1960 both have diversified far beyond sulphur, with Texas Gulf now dependent on sulphur for less than 50% of its sales. "If it's in natural resources," Fogarty says, "we'll be there." And it already is—in phosphate and potash, lead, zinc and silver. By 1972 Texas Gulf will be in iron ore as well.

Freeport is just a step behind. Sulphur still accounts for about 75% of its revenues, but it has added kaolin, phosphoric acid, oil, gas, potash and nickel. It has also found asbestos in Mexico, nickel in Australia and the company has already begun to develop a massive copper orebody in Indonesia (FORBES, May 1).

But neither company has gone far enough. Though Texas Gulf earned 20.5% on its equity in 1969 and Freeport 12.5% in the first half, as sulphur prices slid downward, Texas Gulf's earnings were off 28%, Freeport's nearly 55%. And the end is nowhere yet in sight.

And where are the fat years now? Gone with the snows of yesteryear. ■

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An Unusual Twist

Madison Square Garden wanted Roosevelt Raceway. So did Phil Levin. Who won? Apparently Roosevelt's minority stockholders did.

LIKE MANY another company these days, the Madison Square Garden Corp., a big name in sports and entertainment, has gotten itself into a cash problem. In trying to get out of it, the Garden, a Big Board-listed company, may have gotten itself into an even worse bind.

After heavy losses in the spring of 1969, Chairman Irving Mitchell Felt tried to acquire Roosevelt Raceway, Inc., the Long Island trotting track, for the Garden. Obvious attractions: prime real estate (12 commercial buildings and 208 acres ripe for development); ample earnings (\$2.20 a share on revenues of \$25.2 million); its current debt (a modest \$8 million); and—best of all—current cash flow of \$8 million.

But, alas, someone else had the same idea. Phil Levin's Transnation Development Corp., which owns two Chicago racetracks, began wrestling the Garden for Roosevelt (*FORBES*, Dec. 1, 1969). It was a fierce battle while it lasted, with both sides buying stock in a series of big-money transactions. When the fighting stopped, the Garden and Transnation were joined in a sticky mess. Today the two companies are stuck with minority stock holdings purchased at high prices and a belligerent band of hold-out Roosevelt shareholders.

Together, the Garden (37.5%), and Transnation (26.4%), would have apparent control of Roosevelt. But as the track's 82-year-old founder-president George Levy notes, "That isn't enough to get their hands on our cash."

The obvious solution—buying out the remaining smaller shareholders and taking unquestioned control of Roosevelt—is beyond the pair's immediate grasp. The two companies shelled out about \$20 million in cash for their holdings to date. They lack the cash to buy the rest, and paper—that is, convertible securities—isn't very popular these days.

Further, neither can unload its shares in today's market without suffering multimillion-dollar losses. In short, they're stuck. Here's how the Garden got into the mess.

A Cash Eater

Garden management has created an entertainment and real estate company that has an enormous appetite for cash. In 1963 it began building the new Madison Square Garden Center and adjacent office building atop New York's Pennsylvania Station. In build-

ing it, management spent more and got less than expected. When the complex was completed in 1968, a year late, the sports center alone had cost about \$50 million, \$6 million over budget. And plans for a second office building and a high-rise hotel had been scrapped along the way.

The complex' debt and overhead immediately began pressing company resources. By May 1969, the Garden's long-term debt was up from \$53.7 million in fiscal 1968 to \$94.7 million, a \$41-million jump. And total debt service was over \$1 million a month. Also, operating costs hit \$102,000 a

share in cash and seven-year notes was a full \$20 a share above the stock's trading price at the time. (It was recently around 33.) In all, the Garden got 26.4% of Roosevelt's 1.3 million shares in July for \$17.2 million.

In spite of the high prices, Felt announced in August 1969 that he sought 100% of Roosevelt. He might have gotten it were it not for Transnation's September tender offer for 30% of Roosevelt's stock at \$46.50 a share. Felt countered with a deal, which prompted the Securities & Exchange Commission to sue.*

The SEC charged that Garden ex-



day—365 days a year. By comparison, it cost only \$25,000 a day to operate the old Garden in 1965.

The bottom line was bright red in fiscal 1969, with a loss of \$2 million, or 21 cents a share, on revenues of \$43.9 million. (The Garden earned \$92,873, or 1 cent a share, on sales of \$54.5 million this fiscal year ended May 31.)

Chairman Felt had hoped to offset start-up costs of the new sports center, at least partially, by developing the site of the old arena. But his plans for the vacant four-acre block in mid-Manhattan fell flat. So Felt began looking around for some other profit-making deal. (The old Garden site is now a parking lot, which carries a large \$11-million mortgage with a whopping 12% interest. Felt indicates that the site is up for sale, perhaps at a sacrifice price.)

Felt focused on Roosevelt Raceway in July 1969. Roosevelt's chief minority stockholder, the San Juan Racing Association, realized a profit of \$5 million by selling out to the Garden for more than \$50 a share. That \$50

executives induced Goldman, Sachs & Co. and another investor to buy Roosevelt stock "in a manner calculated to cause the market price . . . to exceed [Transnation's] tender offer price."

The Garden, said the SEC, persuaded private investors to buy Roosevelt stock in the open market, guaranteeing to take the shares off their hands within a year at a profit of 20%. With this kind of an offer, presumably the investors didn't much care what price they paid for the stock, since, the higher the price, the greater the 20% profit. At any rate, as Transnation's Levin was making his tender offer, Roosevelt stock soared from 34½ to 48½ a share. Transnation thus garnered only 13% of the stock and the battle was a standoff.

The SEC suit ended with a consent decree. The defendants never admitted any wrongdoing, but they signed

*The Roosevelt takeover has sparked two other suits. One, filed by a former Transnation director, alleges that Levin and others realized personal profits on the tender offer. The other, filed by Roosevelt itself, alleges that its former treasurer abused his post in order to buy company shares, which, in turn, he sold to the Garden. All defendants have denied any wrongdoing.

the consent order in April nullifying the deal. Goldman, Sachs and clients still hold 96,000 shares which must be sold by next year, possibly at a loss.

It would appear that Garden executives, and Levin too, became convinced by the spring that their battle was futile. No one could win. So they tried to talk their way out of the stalemate. But neither had the cash to buy out the other, and a plan to operate Roosevelt jointly was abandoned. Then this June the Garden announced the only practical deal: A merger with Transnation.

The merger is still uncertain. Levin has rejected the Garden's original stock offer of 2% shares of Garden common for each Transnation common share. And now Levin himself may be bowing out of Transnation. Says Felt: "Assuming that Charles Bluhdorn [head of Gulf & Western Industries, which owns 41% of Transnation] and Levin terminate their relationship, we hope to negotiate a definitive agreement involving the merger of Madison Square Garden and Transnation, perhaps within 30 days."

But even if one assumes the deal is made and then approved by the companies' largest stockholders, including the bankrupt Penn Central Transportation Co. in the case of the Garden, what would the merged company do next? It would still be holding a questionable investment. It is estimated that each share of Roosevelt owned by the Garden is costing the Garden about \$4 in interest and carrying costs; Roosevelt's earnings this year are estimated at only \$2.50 a share, dividends only 80 cents.

A Stubborn Demon

And the new Garden corporation would still be unable to get hold of Roosevelt's cash without risking minority stockholder suits. At Roosevelt's annual meeting in July, a shareholder issued this theatrical yet sincere warning to Felt and Levin:

"You have a demon on your hands in the form of us minority stockholders. Don't try to stab our George Levy or the image of Roosevelt. If you do, we will see where the blood is spilled."

Many of the remaining 5,600 share-

holders, knowing they have a strong hand, resisted offers of up to \$54 a share in cash and notes a year, ago from Madison Square Garden. Obviously, they want a still better offer.

"They'll come up with a basket of securities," says John Vanneck, who with 31,000 shares is the largest minority shareholder. "But they better have a bundle of cash when they do."

At \$40 a share—midway between what the Garden paid and recent quotation—the new Garden corporation would need up to \$8.3 million to get enough shares (80%) to file consolidated tax returns, and up to \$18.7 million to reach Felt's goal of 100% ownership.

Felt says: "There are the necessary resources in the picture, even in the event that all the minority stockholders request appraisals."

Meanwhile, Roosevelt Raceway stock, traded on the American Stock Exchange, recently sold in the low 30s, about where it was when the whole thing started. And Garden stock? At 3 and a fraction it was down from a high of 12% last year. ■

Birth Pains

A government-backed insurance company for investment in risky lands should have insurance itself against domestic politics.

"THERE'S: a myth about our foreign business that is held both by Americans and the populace abroad," says Rudolph A. Peterson, retired chairman of Bank of America and author of the Peterson report on American foreign aid. "They think it's a lot more profitable than it's proven to be."

Peterson, of course, is not talking about U.S. corporations doing business in Western Europe. He is referring to the riskier prospect of doing business in Latin America, Africa and Asia. That is why his landmark report, issued last March, was so enthusiastic in support of the Overseas Private Investment Corp. (OPIC). Peterson thinks OPIC is one segment of the U.S. foreign aid bureaucracy that could get some results.

The Nixon Administration couldn't agree more with Peterson. It hopes to make OPIC one of the main vehicles in its attempt to get foreign aid to be more dependent on the private sector.

What is OPIC? It is a year-old government-backed corporation designed to encourage U.S. private investment in developing countries by taking some of the risk out through a \$15-billion insurance program against war, expropriation and currency converti-

bility problems. Also, it can offer guarantees on loans for such investment totaling some \$750 million.

The idea is not new. An OPIC-like organization has existed for the past 20 years inside the Agency for International Development and has written some \$7 billion of insurance and guaranteed loans totaling \$160 million. To give the organization more flexibility, and to attract private money, OPIC was created last year by legislative action and scheduled to start operating in July 1970. The only problem is that a political squabble over who should be its director has so far prevented its birth.

Senator Jacob K. Javits (Rep., N.Y.) shepherded the amendment creating OPIC through the Senate. But he is miffed because the Administration did not consult him when it came to picking a chief executive or board of directors for OPIC.

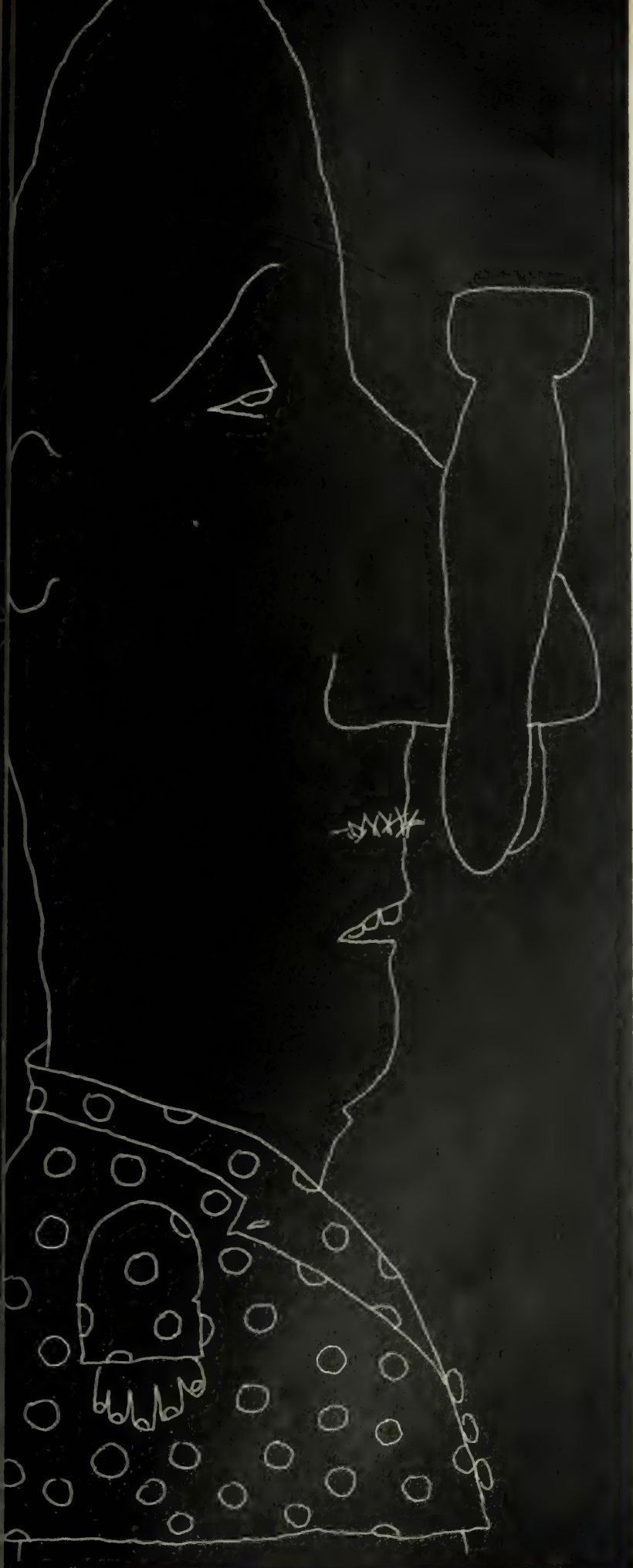
The Administration wants a successful investment banker, John Shad, a vice president of E.F. Hutton & Co., as managing director. Javits has his own candidate, Herbert Salzman, a family friend who ran OPIC's predecessor within AID and serves as acting chief executive while the new

agency goes through its birth pangs.

But behind the politics lies a deeper argument over the direction the corporation should take regarding U.S. private investments abroad. His Administration supporters say Shad will view potential projects for OPIC more with an eye toward promising opportunities for U.S. business. They point to the interim management's loss of \$9 million last year on defaults of loans in the Dominican Republic and Thailand.

Javits' supporters fear that Shad's orientation will lead to OPIC giving greater weight to the needs of U.S. business and less to the needs of the developing countries. Further, they argue that the proposed OPIC board—recruited from the world of finance—does not have experience in the realities of investment in developing countries. Such a pragmatic businessman as President Ray MacDonald of Burroughs Corp. says, "We feel the board is heavily from the New York investment and insurance community. If you're going to invest in a country, you need people who have done it."

The maneuvering over OPIC goes on. But the larger question is the one posed by Rudolph Peterson's observation: How profitable is U.S. corporate investment in the developing countries? Surely anything that will help such investment to return an acceptable profit will do more than rhetoric or good intentions to attract still further investment into these lands. ■



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Rebels in Grey Flannel Suits

Attacks from outsiders are old hat to big companies. But now they have something new: criticism from within.

ROBERT A. FOX makes perhaps \$20,000 a year. Dressed in his grey suit, a striped shirt with French cuffs, and carrying an attache case, Fox looks like a typical big corporation middle-management executive. Which is what he is. Each day he sells petrochemicals for one of the country's biggest oil companies.

What is unusual about Fox is this. At night or on weekends, he gives speeches on what he considers one of the country's most serious problems: air pollution. You can't call Fox a rebel because he is working very much within the system. He is a reformer.

as General Electric, Union Carbide and Trans World Airlines, felt that the profit motive and social responsibility often conflicted. The corporation, they argued, should include social responsibility in its decision-making.

A somewhat similar change seems to be taking place in such heavily business-oriented professional associations as the Institute of Electrical & Electronic Engineers, (115,000 members), the American Chemical Society (113,639 members) and the American Institute of Physics (48,000 members). A few years ago they barely took official notice of social prob-

WHO OPPOSES THE ABM?

The Scientists Who May Have To Build it...That's Who!!

"We professional scientists and engineers are opposed to deployment of the Safeguard anti-Ballistic Missile system. Many eminent scientists have already testified to the grave technical uncertainties in the proposed ABM system. Even if these uncertainties are resolved,

He doesn't want to do away with free enterprise, with the establishment. But he wants to change them.

"In the short run, this has probably hurt my career," says Fox. But by restricting his activities to nonoffice hours, Fox manages to lead his double life. "Management has been quite reasonable," he says.

Most company employees aren't willing to take the chance Fox took. Some simply don't care. Others honestly feel that solving social problems like pollution lies outside their professional responsibility.

At a recent conference of young (25 to 30 years old) managers sponsored by the Foundation for Human Resources Development, about two-thirds felt that the sole job of business was to generate jobs and wealth. Making so-called social contributions had little place in the big corporation.

But what may be more significant is that a minority disagreed. About one-third of the young managers, who were picked from big companies such

lems. Their annual conventions were a place to present papers on technical subjects and scout for jobs. Today the technical papers are still presented. But so are panel discussions on the role of the physicist in society, papers on pollution and debates on the antiballistic missile.

At times, talk has turned to action. Scientists at Bell Labs, the research and development arm of Western Electric, an antiballistic missile contractor, have publicly criticized government policy on the ABM (see Washington Post *ad, above*). Dr. Richard Garwin, a leading scientist for International Business Machines, has openly criticized the supersonic transport program. Some 40 employees of Pillsbury are now active in an antiwar organization that has the use of the company's facilities for their meetings.

Some think this activism may spill over into unruly corporate criticism, as the college graduates of the late Sixties enter the corporation. In a *Harvard Business Review* article ti-

tled "Is the Corporation Next To Fall?" Anthony G. Athos, a Harvard Business School professor, portrays junior executives blocking a meeting of division managers, singing songs and demanding that division managers defy a chief executive's decision.

While Athos' view seems farfetched, it is true that some employees in corporations are considering organizing for added leverage. After the Young Managers Conference, a number left with the idea that they should present their ideas to upper management as a group, rather than deal individually with their own superiors. Black business school students meeting at Harvard this summer formed an organization that might easily develop into a pressure group on minority hiring practices. On the West Coast TASC (Technical and Social Committee) and the more militant Scientists and Engineers for Social and Political Action recently put pressure on a major defense contractor to rehire an employee it had fired for publicly criticizing the company's minority hiring policies.

On the East Coast, Computer Professionals for Peace, formed to protest the Vietnam war, has branched into pollution and invasion of privacy questions. Most of CPP's time is spent trying to raise these questions at computer industry meetings.

Irwin B. Margiloff, a chemical engineer and member of the American Institute of Chemical Engineers thinks that the potential impact of the professional organization on corporate policies is much greater than most people realize. "If you exhort business to do something directly, you are talking to thousands of firms. It is too diffuse. But if you propose your idea to a group of chemical engineers, they all speak the same language. If all these people were exposed to certain professional attitudes and certain social goals, the corporation itself would begin moving in that direction."

If this pressure does come, it will almost certainly come from the younger employees. Not that they are necessarily more moral than the middle-aged employees. But they are more sensitive to the problems. And they feel more personally secure, less bound to the paycheck.

A real revolt among middle management and young executives? Probably not. But—like the army after which it is in some ways modeled—the corporation is going to have to face the fact that the younger generation is not willing to give unquestioned obedience. In getting and keeping good people, the corporation won't just be able to buy their loyalty; it will have to earn it as well. ■

The Money Men

Dow 1000? Forget It

ANYONE who is waiting for the Dow-Jones industrial average to soar past 1000 and for those beat-up "growth" stocks to come back will have to wait a long, long time. There will be upturns in the market and downturns, but five years from now the DJI will still not be back where it was at its high in 1966. Not until another generation, a generation unscarred by memories of 1968 and 1969, takes over in Wall Street will there be another great stock market boom.

Who says so? A tall, lean 39-year-old Englishman with thinning hair and glasses named Anthony Merrett. The name means nothing to most Americans, but in the United Kingdom Merrett is considered *the* authority on the movement of prices on the London Stock Exchange. Merrett is the first to admit that he's not an expert on the U.S., but world stock markets tend to move together these days. And just as it's now one world for business, it's getting to be one world for stock prices, too.

Before quoting Merrett's views, let's say all the worst things one could possibly find to say about Merrett. He's a university professor, a professor of finance at the London Graduate Business School. He studied at the London School of Economics.

Having said that, it's only fair to add that Merrett is himself a highly successful businessman. Among other things, he runs the Gower Press, the leading publisher of books on management and finance in the United Kingdom, a company that made mincemeat of McGraw-Hill when McGraw-Hill attempted to invade the market. He also runs Merrett Cyriax, a firm of consultants whose clients include both leading industrial concerns like Plessey and Laporte Chemical and leading merchant bankers like Lazard. So, we'll forgive him for being a professor.

Merrett believes the decline in the stock market in the past 22 months has signaled not a depression but a return to reason. After a long and heady bout of irrationality, the market, he says, is now beginning to assess stocks at what they're really worth.

It's his conviction that, in the

Fifties, stocks were greatly undervalued. "That was partly the result of the Depression," he says, "and partly the result of the war. It was partly because, in your country and mine, the men who dominated financial markets were men old enough to have memories of the Depression. Experience had made them cautious."

When the market *began* to move up, says Merrett, it was behaving rationally. It was correcting the undervaluation of the Fifties. "Then the irrational took over."

Investors saw the market rising "and they extrapolated from that—wrongly. They didn't realize the market merely was correcting an undervaluation. They believed the rise would continue forever. Well, you just can't extrapolate from a once-in-a-generation phenomenon."

Other irrational factors developed, too, Merrett says. Advances in technology created new companies with vast potentialities for growth. "Their stocks boomed and, in many cases, rightly so. Unfortunately, the boom in the new-technology stocks created a boom psychology. Investors began to believe that *all* stocks had infinite potentialities. That obviously wasn't true, but investors became so blind they couldn't see the obvious.

"And then, of course, the conglomerates came in. They appeared to have a magic way of multiplying profits. They had all the elements, all the appeal of a chain letter. Simple reason should have told people that you can't increase profits just by changing your arithmetic."

When the stock market decline set in, Merrett says, it did so for one reason and one reason alone: Stocks that were underpriced in the Fifties had become overpriced. Period.

Merrett explains: "The stock market is a money market. Like any money market, it must, in the long run, reflect the economy. In the long run, stock prices, *on the average*, cannot possibly advance much beyond the economy."

Merrett has another generalization to make about the stock market. "Until a couple of years ago," he says, "people believed that stocks were a good hedge against inflation. They've learned better now, but it was sheer ignorance



Merrett of London

and nonthinking that made them believe this in the first place.

"It's a fact, which anyone who reads the newspapers should realize, that in today's world no government will continue to let inflation go unchecked. Sooner or later, every government will step in with measures to stop inflation. My government is doing it. Your government is doing it. In today's world, a government must.

"Now there's only one way we know of halting inflation, and that's by shrinking the money market. Raising taxes, raising interest rates, curtailing credit, curtailing the money supply. Since the stock market is part of the money market in general, measures like these are bound to be discouraging to stock prices. The idea that stocks are a hedge against inflation is nonsense because, sooner or later, every government is certain to adopt the kind of measures they have, in fact, now adopted."

Not a pretty picture that. Certainly not for the brokerage business, which thrives on rising markets. No longer could the stock market be sold as a hedge against inflation. No longer would it be

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The Money Men

truly undervalued. Merrett believes we are entering an era which will be, basically, sensible but dull. "Yes, there will be periods when the market goes wild. And they'll be followed by declines. And the declines will be followed by periods when the market goes wild again, only to slump again. I believe that each bout of irrationality won't be quite as severe as the one before. And finally the market will return to a level based on reasonable expectations of the economy."

And what is that? "A level based on yield. This means a level based on return on the stockholders' investment plus growth. It's reasonable to figure that a stock should yield 5%. Our economy and yours since the war have been growing at about 4%. That makes a total of 9%, including dividends. This is what you can expect the average price of stocks to grow in the years to come—9% including dividends."

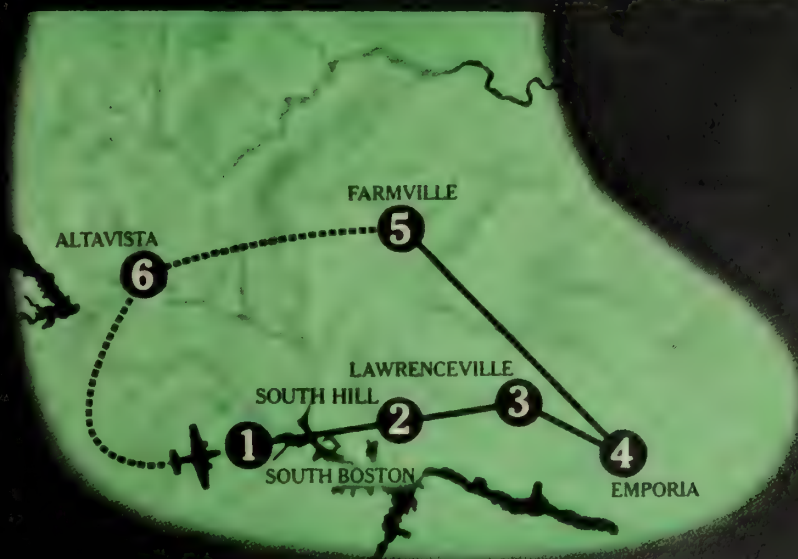
"This, incidentally, is just about what gilts [British government securities] now pay."

Merrett insists on emphasizing the words *on the average*. "This is something for investors to remember," he says. "On the average, stocks will rise at a rate of about 9%, but there will be some companies that surge far ahead of the economy. That is the challenge for investors—to find those companies. What investors should guard against is the mistake they made before—to believe that what is true of one stock is true of the market as a whole."

Looking way ahead, Merrett says: "I suppose there will be another boom some day—but not as long as investors still bear the scars of what has happened in the past two years. Another generation will arise in Wall Street and in The City just like the go-go kids we've just seen fall on their faces. They'll be sure they have the Midas touch. I suppose history will repeat itself."

After hearing out Merrett, we went back and did a little arithmetic. We found that 25 years elapsed between the 1929 crash and the next bull market which got under way around 1954. By that analogy, we won't have another *real* bull market until about 1995. That's a long time to wait. Okay, we suppose, for professors like Merrett, but a little tough on stockbrokers and investors. ■

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Going First Class

Squibb Beech-Nut has two first-class great names but only second-class performance. The merger has produced progress but no miracles.

CAN YOU TAKE two lackluster companies and merge them to create a growth company? The idea is somewhat discredited these days and with good reason: So much synergism turned out to be so much malarkey. But Richard Furlaud, president and chief executive officer of Squibb Beech-Nut, thinks he can pull it off. It's 2½ years since he merged his Squibb firm with the food and candy company, and he hasn't produced any miracles yet. But he has produced some good sales and earnings gains without resorting to either heavy leverage or fancy bookkeeping.

"We are getting more out of our research, marketing and distribution when we spread these efforts over a greater field," says Furlaud. "We're pretty much on schedule with our five-year plan, and we expect our growth to continue."

What do the figures show? That Squibb Beech-Nut has been having steady sales gains: up some 6% in 1968, up 5% in 1969 (to \$645 million) and up nearly 10% in the first half of 1970. Earnings gains have been slower: up about 7% (to \$2.31 a share) over the two years since the merger, although they jumped almost 15% in this year's first half. Squibb Beech-Nut's return on stockholders' equity is still well below that of such similar companies as Warner-Lambert or Bristol-Myers or American Home Products. Squibb last year

netted 13% on equity *vs.* between 19% and 26% for its rivals. All in all, a good showing but not a spectacular one. But better things may lie ahead.

In 1967 Squibb was a profitable but sluggish drug subsidiary of Olin Mathieson (now Olin), which had a heavy chemical company's typically low price/earnings multiple. Beech-Nut was a foot-dragging food and candy outfit with established brand names but static earnings and a declining market share. Furlaud, who was then president of Olin's Squibb subsidiary, argued that spinning off Squibb and joining it with Beech-Nut would kill several birds with one stone. It would cut Squibb loose from Olin's then low multiple. It would give Squibb the benefits of Beech-Nut's retail distribution network to help expand. And Beech-Nut would get a boost from Squibb's experience in formulating food products and in quality control.

Glamour Stock

Furlaud got his spin-off and merger, and now he has his multiple: The merged company is selling around 24 times probable 1970 earnings—right up with the best-quality drug stocks.

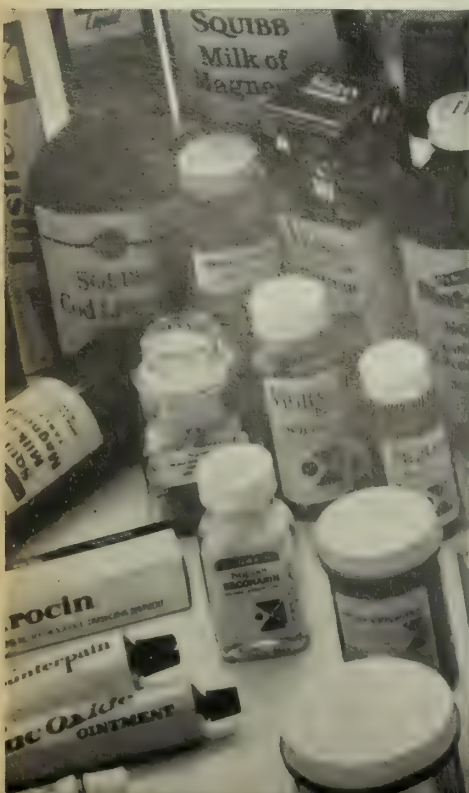
So it's a going proposition. But it isn't yet the "fantastic fit" Furlaud talked about at the time of merger.

Some big problems remain. Beech-Nut, which contributes around 40% of sales but nowhere near that to earnings, remains the big problem area. Furlaud concedes, "There's still a substantial spread in profitability between it and Squibb." It's a poor showing, in view of Beech-Nut's established market position as No. One in the country in hard candy (Life Savers), No. Two in tea (Tetley), and under its own name, No. Two in baby food and No. Three in chewing gum.

Furlaud won't say right out that stodgy marketing is the problem. But last spring, he installed a new Beech-Nut management that includes two ex-vice presidents of General Foods plus the former president of Warner-Lambert's American Chicle division.

Squibb has problems, too. Its good fortune in getting into the foreign market early and selling strongly there has only partly compensated for a more tepid domestic performance. Squibb is only about fourth in this country in new prescriptions, and has come up with relatively few new or unique drugs. With the regulatory screws tightening on all the drug-makers, Furlaud says candidly, "We recognize that prices and margins will go lower." The research team he brought in (headed by Dr. Arnold Welch, the former chief of pharmacology at Yale) is going to get him some new drugs—he hopes: They're set to introduce a new tranquilizer, an antibiotic and a nonsteroid for arthritis treatment in the next year or two.

Furlaud is making progress, but the going has not been easy. Truth is, there's no magic in putting two companies together. Still, Beech-Nut has brand-name acceptance that other companies would spend millions for, and Squibb is just as well-known in pharmaceuticals. Furlaud and the men he has brought in may make more out of such assets. That won't be "fit," though. That will be management. ■



Familiar Names. Sure, Life Savers is the best-known name in its field. But can Squibb Beech-Nut say the same for its aspirins or baby food? No. And second best isn't good enough in branded goods.



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The Lively Corpse

Most people have written off the cigarette companies as dying. They had better take another look.

CIGARETTES are a declining industry, and declining industries don't make much money. That sounds logical, only it doesn't happen to be true.

To be sure, cigarette consumption is declining, as more and more people have become convinced that cigarettes are bad for you. Per capita consumption has declined over 5% since the mid-Sixties, finally resulting in a decline in total consumption during the past few years of about 2%.

At the same time, taxes have been soaring. True, the federal excise tax of 8 cents per pack has remained constant since the early Fifties (though it may well rise next year). But whereas only 42 states taxed cigarettes then, all 50 do now; and the average state tax is close to 11 cents a pack today vs. about 3½ cents a decade and a half ago. Last year alone 20 states increased their tax bite, while nine more have already done so in 1970 or soon will. Nor can the cigarette makers hope to bolster their sagging market by more and bigger promotion: After this year, television and radio advertising in the U.S. will be barred to them altogether.

So what happens? Profits (see table) have been going up—and not necessarily because of diversification, either. In fact, poorly conceived or poorly timed diversifications have often actually slowed cigarette company earnings growth.

The Only Way To Go

The secret of that earnings growth has been the cigarette makers' gradual realization that their product is not price-elastic—that is, sales are not responsive to ordinary price changes. Their huge hard core of hooked smokers in the U.S. will keep on buying cigarettes despite price hikes of a few pennies a pack, thereby providing the funds for diversification and for expanding abroad, where, in contrast to the U.S., the cigarette market is still growing.

When the cigarette companies fully recognized this, they raised prices—



twice in the past 15 months. That is why the five big tobacco companies last year showed a well-above-average return on investment of 14%. "If you're going to be a declining business," one Wall Street analyst summed up, "I can't think of a better one to be in. Cigarettes throw off plenty of cash flow steadily, which enables the companies to diversify at their leisure and expand abroad." Indeed, last year the five largest tobacco companies had a retained cash flow—that is, after dividends—of just under \$300 million.

The arithmetic works something like this. A pack of cigarettes normally brings about 45 cents at retail. Of this, the retailer and the distributor

get about 13 cents, leaving 32 cents. Add, say, 8 cents federal and 11 cents state tax, and the manufacturer's take is 12 cents—for a pack of cigarettes whose combined raw material and manufacturing costs are about 7 cents. Even allowing for ample advertising, marketing and overhead expense, pretax operating margins are still comfortable—about 28% to 29%, according to the estimate of analyst Jane Gilday at Argus Research. Yet tacking even as little as another cent on to the price obviously has an appreciable impact on those margins.

Don't the cigarette makers worry about smokers being priced out of the market? They do worry—but not so

Cigarette Makers: A Statistical Profile

	Latest 12-Month Results		Earnings		Recent Price	1962-70 Price Range	Indicated Yield	Price/Earnings Ratio
	Revenues (millions)	Per Share	5-Year Compounded Growth Rate					
American Brands	\$2,650	\$3.83	5.9%		38⅞	52¼-25⅞	5.4%	10
Liggett & Myers	655	3.04	1.2		37	55⅞-30½	6.8	12
Loew's Theatres (Lorillard)†	683	2.55	NC		25	61½-1⅞	0.5	10
Philip Morris	1,273	2.93	18.6		39¼	40½-10⅞	2.6	13
R J Reynolds Industries	2,366	4.02	4.4		42	80⅞-34	5.7	10

*Includes excise taxes. †Includes Lorillard, acquired in November 1968. NC—Not Comparable.

much as their public pronouncements suggest. After all, they have before them the example of Britain. There, radio and TV cigarette advertising has been banned since 1966. But British smokers—allowing for income differences between the two countries—are willingly paying \$2 a pack for their cigarettes today on a rising consumption trend.

Windfall—For What?

The impending U.S. ban on radio and TV cigarette advertising is far from a disaster for the companies, at least in the next few years. This year the cigarette companies are spending some \$225 million in TV and radio. Nobody expects this entire amount to be spent in other media—and whatever is not spent will, of course, go straight to pretax profit. One informed industry analyst estimates that at least 25% of this money and perhaps more will end up as profit. "There is a kind of drop-through effect," he says. "If it wishes, a company can take part of the money and run it through the income account next year, then it can do the same thing for several following

years on a gradually declining basis."

To be used for what? Ordinarily, for foreign business or diversification, with the former looking distinctly better at the moment. Cigarette consumption abroad already exceeds that in the U.S., and has been increasing in a number of countries by 3% or more per year despite prohibitions on radio and TV advertising.

Philip Morris has had the greatest success to date in the foreign market. For example, it introduced Marlboro in Italy in 1963 without advertising; today the brand accounts for a respectable 3% of the market. Austria produced about the same results for Marlboro, which is now the top-selling American brand in Europe. All told, Philip Morris gets close to 25% of revenues and profits from foreign markets, far more than any other U.S. competitor, which helps to explain PM's outstanding five-year earnings growth of nearly 19% a year.

The other U.S. cigarette companies are pushing hard to catch up. In 1968, for example, American Brands bought Britain's Gallahers Ltd., while R.J. Reynolds Industries' President William

Smith predicts, "I expect that in the next five years foreign cigarette sales will become a major factor in our overall sales and earnings picture."

Diversification has been much more of a mixed bag. Tobacco company acquisitions have tended to center on such consumer items as gum, candy, beer, pet foods and liquor; and while there have been no disasters, neither have there been any noteworthy triumphs. The most unusual move was Reynolds' venture into shipping and containerization through its 1969 merger with McLean Industries, whose expansion required a \$150-million borrowing and will take at least several years before paying off.

But Reynolds' total debt of \$275 million is relatively modest when compared with its combined common and preferred equity of \$1.1 billion. In fact, most of the cigarette companies have today what many another company envies, namely, a moderate debt-to-equity ratio and a large, steady cash throw-off. If the cigarette business is indeed a dying business, the companies in it have certainly devised a stylish way to go. ■

Whiplash

The commodity markets went wild on rumors of a blight-ravaged corn crop. But most of the speculators got whiplashed.

IN THE SOMETIMES ghoulish world of commodity trading, nothing makes a speculator's heart beat faster with anticipation than rumors of impending disaster. Last month the game was called Corn. In the Sunday papers of Aug. 16 came news that Southern leaf blight was ravaging the corn crop.

Such news would have been sensational in any commodity, but in corn, it was a bombshell. Corn is by far the nation's largest crop, and a sharp upward move in corn will trigger a sympathetic reaction to virtually every other agricultural commodity.

Was this news a great windfall for speculators? Surprisingly, it was not. True, on Monday morning Aug. 17 the commodity markets exploded in the sharpest move since just after World War II. Wheat, soybeans and livestock followed suit. The volume of trading broke all records on the Chicago Board of Trade.

But as the dust settled in the days that followed, it was soon apparent that for the amateur speculator who first learned of the corn blight in the Sunday papers, the game was over almost as soon as it had begun. Wildly contradictory rumors began to fly. While the Department of Agriculture

refused to comment on the extent of crop damage until Sept. 11, Senator Allen J. Ellender, chairman of the Senate Agriculture Committee, was quoted on the commodity wires as saying that no more than 5% of the nation's corn crop was affected. Meanwhile, some professional traders unloaded on Tuesday, and Aug. 24 the price of corn dropped \$1.46. As this issue went to press, the Monday high of \$1.58 had yet to be surpassed. Many amateurs were badly burned.

Charles Matthey, who heads Bache & Co.'s commodity department and has been in commodity trading for 42 years, shakes his head. "An awful lot of people took some pretty bad losses by coming in during the first two days when the market went up the limit and then selling when the market had a sharp drop," he says.

Wrong Disaster

"Look, the amateurs aren't pricing corn," says another commodity broker who prefers to remain anonymous. "They're pricing blight. And what that means is you're pricing misinformation. You just can't make money that way. On Sunday before the limit move, all the media had the wrong numbers.

The Georgia pathologists were talking about the seven Southern states, not the entire country. Damage to 80 million bushels instead of 2.5 billion. That's the kind of stuff you're up against in commodities."

About the only people who did make money from round one of the corn-blight scare did so by accident, rather than foresight. Most of the grain letters urging speculators to buy corn when it was around \$1.16 stressed drought damage.

Even the big corn processors like CPC International, A.E. Staley and Standard Brands admit they didn't make a killing. Says an executive, "We protected ourselves but no more."

Speculation in corn isn't over yet, of course. The full extent of the crop damage won't begin to be known until late September after the next harvest. Furthermore, there is rising concern about the extent to which seed for next year's crop has been damaged.

And what is the smart commodity money doing these days? "I think a lot of smart traders are out of the corn market altogether," says Matthey. "Smart commodity money always takes the chance that the rumor going the rounds is exaggerated, and more often than not, they're right. But if they're wrong, they can be wrong for an awful lot. So right now they're out."

What it all adds up to is a classic example of why commodity speculation is no game for amateurs. ■

The mother got over her rubella in three days. Unfortunately, her unborn child didn't.



To pregnant mothers, rubella (German measles) means a few days in bed, a sore throat, a runny nose, temperature, and a rash.

But if they're in their first month when they catch it, there's a 40% chance that to their unborn babies it can mean deafness, or a heart condition, or brain damage, or cataracts which cause at least partial blindness.

Only last year, an immunization against rubella became available. But when a pregnant mother

gets immunized, the prevention may be as harmful to her baby as the disease.

So if unborn babies are going to be protected, it will have to be by inoculating the kids who infect the mothers who in turn infect the fetuses.

And it will have to be done now.

You see, rubella epidemics break out every six to nine years. The last outbreak was in 1964. Which means the next one is due any day now.

In the last epidemic, 20,000 babies were deprived of a normal childhood—and 30,000 more deprived of any childhood at all—because no immunization existed.

It would be unforgivable if the same thing happened again because an immunization existed and nobody used it.



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Hand across the Sea

An old company in the U.S., du Pont is young in Europe. This could mean big things for du Pont earnings in the years just ahead.

GRANTED, E.I. du Pont de Nemours & Co. of Wilmington, Del. is not the glamour company it once was (*FORBES*, Dec. 15, 1969, p. 22), but there are no cobwebs on its young European offspring, Du Pont de Nemours International, S.A. of Geneva. Du Pont International is the managing company of du Pont's 14 European subsidiaries. With the cockiness of relative youth, it expects within the very near future to help its aging parent start moving again toward higher and higher earnings.

As recently as 1958, Du Pont International was little more than a gleam in the eyes of Wilmington. Last year it reported total sales of \$358 million. This represented an increase of 35% over 1968, when sales were up 22% over 1967. This year sales are running 30% ahead of 1969. Says Chairman Milton H. Campbell: "We expect our present sales to double in the next five years."

"Our earnings will more than double. They are going up faster than sales." That means, reckoning on du Pont's pretax profit margins of 18%, that International operations in five years could be kicking in more than \$130 million in pretax net to the chemical company's consolidated earnings. Until the last few years Du Pont International had no earnings. It was

simply a drain on Wilmington. All told, setting up du Pont in Europe cost Wilmington \$575 million.

Why all this optimism among du Pont men in Geneva? One reason is a paradox. Americans usually think of Europe as the Old World. Yet, for industry, Europe is really the New Frontier. Europe is not yet saturated with automobiles, refrigerators, color televisions and the like. Yet demand for them is there and, increasingly, the money to buy them is there, too.

European Powers

Of course, Du Pont International cannot hope ever to dominate the European market the way Wilmington dominates the U.S. market. In most industries, the U.S. companies are giants compared with those in other nations. This is not true of the chemical industry. E.I. du Pont de Nemours may be the biggest producer of chemicals in the world, with sales of \$3.7 billion, but Imperial Chemical Industries of the United Kingdom has sales of \$2.5 billion to \$3 billion. Nor can any of the other major companies in Europe be called pygmies: Rhône-Poulenc in France; Montecatini-Edison in Italy; Bayer, Hoechst and Badische Anilin in Germany. As Campbell points out: "All of those companies are pretty close to Dow Chemical,

Union Carbide and Monsanto in size."

The Europeans have other advantages. It's almost instinctive for a German to buy German and for a Frenchman to buy French. Moreover, when du Pont moved into Europe, the European companies already were dug in deeply: They had the sales contacts, they had the knowhow. "For example, they knew how to deal with the unions," says Campbell. "They knew all the angles."

Americans generally take it for granted that U.S. technology is the most advanced in the world. Again, in the case of the chemical industry, this is not true.

How then has Du Pont International been able to establish itself so quickly? To some extent, it's because there's room for everybody in a market that has been growing so rapidly. To some extent, it's because what every American knows just ain't so.

Every American "knows" that Europeans are far more conservative than Americans, far more resistant to new ideas and to change. Du Pont International has discovered that exactly the opposite is true when it comes to chemical products. "The Europeans have a faster readiness to move into new products," says Campbell. Thus du Pont has not found Americans very receptive to Corfam,



The Other Side. The X-ray film being inspected (above) at Du Pont's Fotowerke plant in Germany is typical of the higher-margined products of Du Pont Interna-

tional. The chemical giant's overseas operation sells low-margined products such as polyethylene film, too. But International supplies such stuff from Wilmington.

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its manmade substitute for leather. In contrast, says D.J.B. (Jim) Coulter, who runs Du Pont International's poromerics department, "The British have a ready acceptance of man-made products." Indeed, says Doyce B. Hanson, Du Pont International's director of plastics, "people in Europe have a bit more imagination, a little more willingness to take a risk. For a period, European car manufacturers were way ahead of the U.S. in application of plastics."

But Du Pont International's greatest advantage is that, by and large, it can concentrate on those areas where it has a chance to gain an edge and earn relatively high profit margins. Unlike its U.S. parent, it does not claim to be a full-line chemical producer. It does not manufacture polyethylene, for example, because, says Hanson, "the profits are so low they don't justify the investment." If customers want it, Du Pont International will get it for them from the States. What it does manufacture are specialties like engineering plastics (plastics that can be used to make parts for machinery). "This is a high-margin business compared with commercial plastics," he says.

The American Way

On every product, Du Pont International can offer its customers marketing and technical assistance of a kind that is standard in the U.S. but quite uncommon in Europe. Says Hanson: "Although the Europeans have a technical competence comparable to ours, they're not in the same league when it comes to marketing assistance and in-use development. We help our customers with advertising, with public relations; we train salesmen; we help them develop new applications for our product."

Du Pont International now manages a network of 14 subsidiaries, 12 wholly owned, two partly owned. All its plants except one in Germany, which it acquired for cash, were built from scratch. This was dictated by necessity, not by choice. One important reason du Pont was slow moving overseas was a prolonged antitrust suit (1944-52) that broke up an alleged cartel arrangement du Pont had with Britain's Imperial Chemical. Du Pont first came to Europe in 1956 with a plant in Northern Ireland designed to supply rubber to the British market. But by the time the Treaty of Rome, establishing the Common Market, was signed in 1957, other, more fleet-footed U.S. companies had gobbled up the European companies that Du Pont International might have wanted to acquire.

In retrospect, Campbell believes

that it worked out all for the best. Several of the U.S. companies that went into Europe before the Common Market found themselves with a plant in one country that competed with another they owned in another country. Forced to start from scratch, Du Pont International has an opportunity to create an integrated production and marketing organization.

If Campbell's prediction is correct and Du Pont International does double its sales in the next five years, it will have to expand its production and marketing facilities tremendously. Will that mean a new drain on Wil-



"Danger. Don't start up," says the sign. Du Pont, a giant at home, is small in Germany, where three chemical giants compete. But Du Pont prospers in Germany, because of its marketing knowhow.

mington? Campbell says no. Du Pont's European subsidiaries will produce enough cash flow to finance the expansion itself; and, he points out, expansion won't be nearly as expensive as launching Du Pont in Europe.

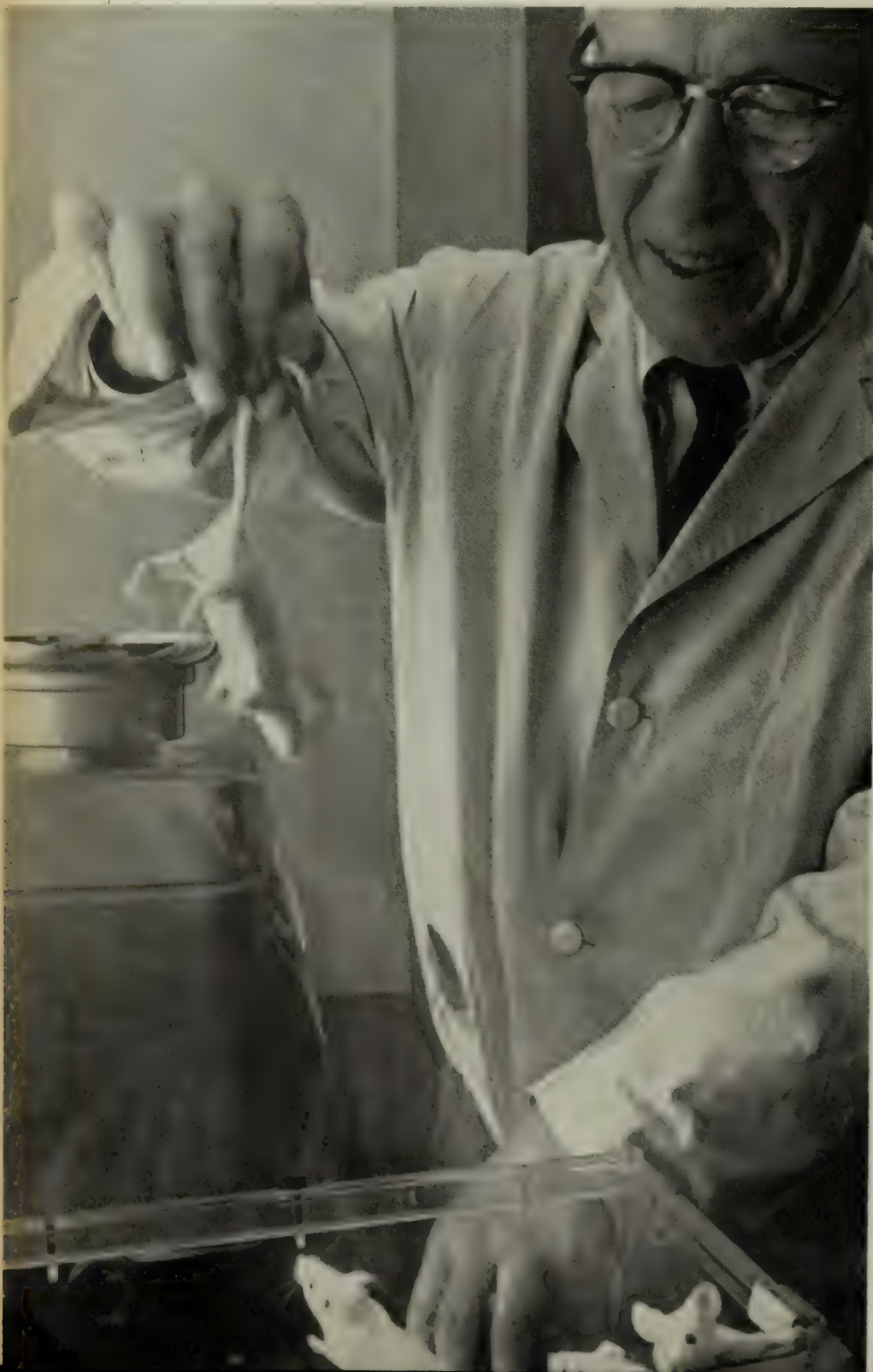
The only word to describe Du Pont International is "cocky." Says John R. Emery, managing director of fibers: "McCoy [President Charles Brelsford McCoy of E.I. du Pont de Nemours] told me he's damned glad du Pont has this investment here." And Campbell adds: "We'll get Wilmington off its earnings plateau." This optimism does not appear misplaced. ■

As I See It

Almost in spite of himself, scientist René Dubos has become a patron saint of the environmentalists. After decades of illustrious obscurity, the 69-year-old, French-born, Rockefeller University microbiologist has become a public figure. He never sought the role; it was thrust upon him. Why? Because he writes books—the Pulitzer Prize-winning *So Human An Animal*, and *The Mirage of Health*. Partly too, because of his—to use an old-fashioned word—character. Asked to describe Dr. Dubos, Arthur Jones, who interviewed him for *Forbes*, said: "He is what one used to call 'a good man.' It's as simple as that."

But do the good intentions of decent men like Dubos run counter to practical reality? *Forbes* put some questions to him.

Dubos of Rockefeller University



A Tax on Noise?

A Tax on Congestion?

Dr. Dubos, most businessmen say they are against pollution, traffic congestion and the rest, and they truly are alarmed by these things. But as businessmen qua businessmen, they're getting increasingly concerned. Many of them say privately that the public doesn't realize what pollution controls and highway safety measures are going to do to prices.

Our question is this: Is the ecology movement bad for business?

DUBOS: No, not if business does right things. For example, since you cannot produce power without producing pollution, there is a need for whole new industries that use power more effectively. I'm not a businessman; I don't know what these will be. But I can see the opportunity. If businessmen do the right things, they'll find new opportunities.

Opportunities? What kind of opportunities—outside of pollution-control devices and seat belts—limited businesses, both. How can business prosper when nearly everything it does is accused of polluting?

DUBOS: Well, there are numerous examples of where American society has moved in the direction of which I speak. One telling example is the pasteurization of milk. Anybody who knew anything about medicine knew that much disease came from contaminated milk, and they knew that just heating milk would get rid of that problem. But the dairy industry said it would be expensive. They had a powerful lobby, and for years they prevented milk from being pasteurized. But eventually public opinion was alerted, grew sufficiently strong and a law was enacted.

Within three or four years the technology of the dairy industry became such that the pasteurization of milk was very effective. And what did the dairy industry find? That far from increasing the cost of milk, it decreased the cost by lengthening its shelf life. Is there a moral?

The moral, convincing perhaps, because it is much more recent, is in the production of drugs. It was decided—because of the thalidomide accident—that no manufacturer could put a drug on the market unless he demonstrated the usefulness, the ef-

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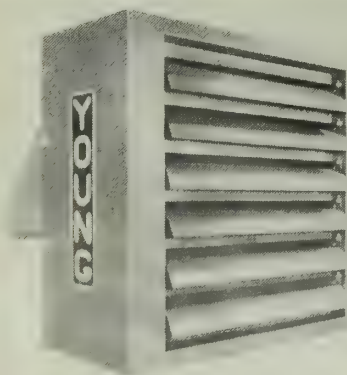


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As I See It

ficacy and the lack of toxicity. Well, I can assure you that there has been, and still is, an enormous drug lobby. And yet the law is going into action.

So, you don't think environment is a passing fancy? After all, there are other big problems today. Why all the fuss about pollution?

DUBOS: People are more aware of the pollution problem because they are closer to it. Threats to the environment reach everyone. Just think if the recent smog in New York had lasted a few days longer. The overloading of hospitals, the lack of physicians and nurses to go around—I think these things would have been more galvanizing on public opinion than the statistical increase in the number of deaths due to smog or poverty or war.

You're saying this goes very deep, this almost overnight—as history goes—concern with the environment.

DUBOS: Well, getting back to basics, what we have here is that man, as an organism, is struggling for survival. Now, using pollution as an example, a vague awareness of a threat to human life has crystallized. People are beginning to feel that change is needed. Why do they feel that way? Because they sense that everyone—including oneself—is a little worried too. That worry is not necessarily a bad thing, it can start a process.

An evolutionary process?

DUBOS: Oh yes. What we are witnessing may be an expansion of the Darwinian concept of evolution, an evolutionary process inside the brain.

Okay, businessmen are good citizens. They don't want to fight the evolutionary process. They want to contribute to it. So how do businessmen take meaningful action?

DUBOS: The businessmen I meet want to discuss what they can do that would be compatible with their stockholders' wishes and needs, and not in conflict with society. One thing I get is that businessmen want strong government regulation—through taxation—so that they all have the same burden.

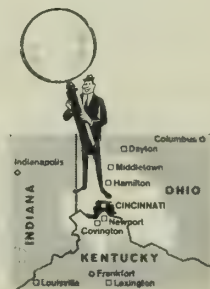
Businessmen want taxation?

DUBOS: Taxation and regulation are about the only way the Federal Government can intervene. Taxes on the



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As I See It

polluter would make it economic good sense to develop new ways of doing the same thing without polluting.

How would you do this?

DUBOS: Well, take insults on the environment from the trucking industry in the form of exhaust, in the form of noise, in the form of interference with motion. I think you can see that it is fair that the trucking industry be taxed on that—and I am sure that if it were taxed it would change its ways.

Talking about changing, Ralph Nader asked you to agree to represent the consumer during the recent movement to place consumer advocates on the General Motors board, didn't he?

DUBOS: Yes, that's right. I have never met Ralph Nader or any of his lawyers. They called me and told me the problem. So I told them I did not want to get involved in economic or political problems—this is not my area. But if they accepted that I talk only about the technological responsibility of the large corporation, then I would take it on. And I did, and I lectured all over the country.

Your argument is that with a large corporation, the long-range interest of the stockholders is quite compatible with a socially responsible attitude.

DUBOS: In this case—GM—certainly it is. It's apparent that our society does not need bigger and bigger cars. On the other hand it is equally clear that our society does need public transportation and small, nonpolluting motor cars. So it seems to me that if General Motors wants to survive, it has to think about the demands of society. And that is not introducing limitations on General Motors, that's demanding of General Motors much more than they have displayed by repeating production of an automobile which, in essence, is the same as one designed 50 years ago.

On the subject of cars and social action, you have described yourself as a Buick-driving conservative who does not regard moral indignation as a useful social tool. What is useful?

DUBOS: Well, what I said was that moral indignation is not enough. There is a peculiar form of escapism in the academic community—and I am guilty of it too, to some extent—which is to write nice articles about some-



thing and not make any effort toward action. I realize that talking is not action, but by talking I hope to create a climate within which the search for solutions becomes a necessity. You see, it is the only kind of action I know.

Shortly after this interview ended, Dr. Dubos inscribed his own hope for the future in a book belonging to a 15-year-old high school boy: "To Robbie, who belongs to the generation which is going to save the earth." ■

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At age 55, the beefy, bald and cigar-chomping Scammon can wade through any smoke-filled room bolstered by his 290-pound bulk and some 35 years of politician-watching. These days the National Broadcasting Co. and *Newsweek* pay him well just to be a phone call away when it comes time to make decisions on election coverage.

In his other role as director of the nonpartisan but influential Elections Research Center, Scammon has for 15 years published the definitive volume, *America Votes*, which every two years analyzes just who voted how in every congressional, gubernatorial and presidential election.

After poring over the 1968 returns, Scammon concluded that *kidpower* may have been present, but *kidlash* was probably an even more potent force. Such backlash, he feels, is apparent in the way ordinary voters are reacting against the demands of the youthful partisans. Youth has gotten to the media and to the influentials, especially in the upper-middle class, he contends. These same people saw kids beaten during the Democratic convention in Chicago and, they said: "Those are our children out there." The blue-collar parent said: "Those are our children out there ---- the cops!" Says Scammon: "The

real gap is now between the son of the Scarsdale psychiatrist and the son of the Italian-American fry cook in some White Tower stand."

These sociological elements convince Scammon that the Democratic party must move toward the political center and away from the radical areas on social issues if it hopes to win. But, paradoxically, Scammon (a Democrat who was Census Bureau Director under President Kennedy) sees business conditions as the prime election issue over the next year and a half.

President Nixon, he believes, is a true political centrist. But he lacks the ability of an Eisenhower to rise above issues, like the economy. "The one thing that's keeping the old FDR Democratic coalition alive," says the pol watcher, is memories of the Great Depression."

In his new book, *The Real Majority*, Scammon and his co-author, Ben J. Wattenberg, a former LBJ aide, warn Republicans against their usual complacency as the party of normalcy. "The Grand New Party must also move on the bread-and-butter issues. . . Americans of the center in the Seventies will want an activist problem-solving Government. Republicans cannot keep the image of the party of the small-town banker. There aren't enough small-town bankers." ■

Easy Choice

IF HE'D WANTED TO, John C. Kenefick, 48, could probably have taken over the roughest job in U.S. industry last month: the post of president and chief executive of the bankrupt Penn Central. Instead, he opted to stay with the Union Pacific, one of the U.S.' most profitable and prosperous railroad properties, and in the process moved up from executive vice president to chief executive of UP's transportation division.

As the Penn Central's trustees are very much aware, John Kenefick is one of the railroad industry's most talented operating people. Born in Buffalo, N.Y., he may have gone to Princeton ("You can do anything if you've been to Princeton," he says) but he made his reputation as a railroader in the industry's most cherished up-from-the-trackgang tradition. In 1946, he put in a stint as brakeman on the UP and then as

an assistant superintendent on the Denver & Rio Grande Western.

When the Rio Grande's president, Al Perlman, took over the ailing New York Central's chief executive spot, he took Kenefick along, and by the time the ill-fated Penn Central merger was effected, Kenefick was head of Central's operations. The first weeks of the merger apparently convinced him of two things: 1) It wasn't going to work, and 2) Al Perlman's Central crowd, mostly young and sharp, were going to be sacrificed to the Pennsy's old-time bureaucrats. Within three months Kenefick was back at the UP, this time as vice president for operations. "I was asked," he says, "and they only had to ask me once."

Why did he turn down the Penn Central offer? Kenefick doesn't concede it was ever made. But he says: "UP's going good, and it's just up to me to keep the ball rolling." Kenefick has an excellent chance of one day succeeding Frank Barnett

as head of the whole UP empire—\$2 billion worth of railroad, oil, land and natural resources. Who can blame him for preferring that to the agony of untangling what may be the worst corporate mess in U.S. history? ■

Kenefick of Union Pacific



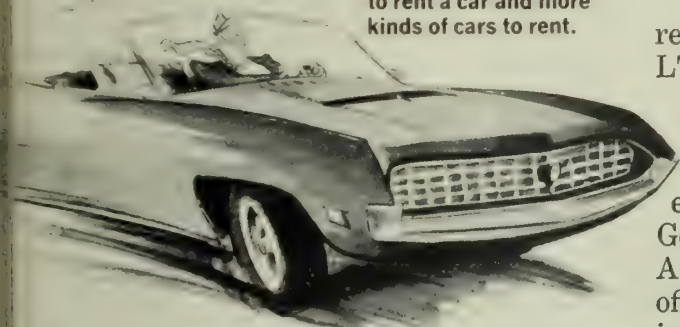
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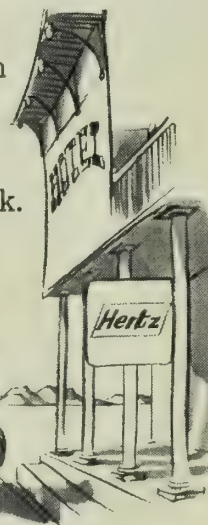
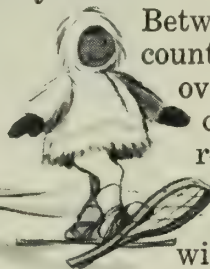
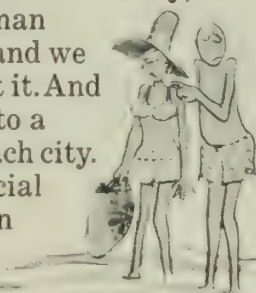
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The Beachhead Widens

YOSHIO TERASAWA, the 39-year-old executive vice president and U.S. manager of Japan's Nomura Securities Co., has his countrymen's gift for pulling off bold business maneuvers as if they were mere movements in a tea ceremony.

Nomura, the largest Japanese brokerage house, last year bought a seat on the Boston Stock Exchange. A major invasion of the U.S. securities business—like the Japanese invasion of the auto and electronics business? Nothing so big, says Terasawa. The idea is to have a place to buy American stocks when the U.S. mutual funds provide orders. "We give them lots of research on Japanese firms," he says. "But because some cannot buy Japanese stocks, they feel sorry for us and give us American orders."

That may be an example of dry Japanese humor, because surely nobody need feel sorry for Nomura Securities. At a time when Wall Street is littered with nameplates of brokerage houses that have faded into merger or bankruptcy, Nomura is moving into new headquarters on The Street.

Most of Nomura's business here at the moment is done in cooperation with U.S. firms. Firms such as Smith Barney, Merrill Lynch and White, Weld & Co. co-managed with



Terasawa of Nomura

Nomura the underwriting of such Japanese companies as Toshiba and Sony. On Japanese stock transactions, which Nomura executes over the closed-shop Tokyo Stock Exchange, American firms reap a 20% commission rebate. This became sizable business as Nomura handled about \$250 million of the \$500 million Americans invested last year in Japanese stocks.

Now Terasawa, himself trained at the Wharton School of Finance, and his staff will be taking Nomura into greater competition with U.S. brokers. Already the firm is dealing directly in Tokyo for U.S. mutual and pension funds. Nomura has considered membership on the Pacific Coast Exchange and on Chi-

cago's Midwest Stock Exchange, but not a seat on the New York Stock Exchange. "Right now," he says, "we don't plan it." Why not? Says he: "We need to live with our friends on The Street."

A bit ingenuously, perhaps, Terasawa says that he sees growing business from wealthy Hong Kong and Bangkok traders seeking U.S. securities and from Americans of Japanese origin who, he says, "like to do business in the mother tongue. We approach them aggressively." Will other Americans, of whatever origin or mother tongue, also be approached aggressively by Nomura? Knowing how the Japanese expand—decorously but firmly—we'll bet that one day they will. ■

All in the Family

LAST MONTH, as 65-year-old W. Irving Osborne prepared to step aside as head of Chicago's staunchly conservative Pullman Inc., history solemnly repeated itself. About a decade ago, when curmudgeonly old Champ Carry decided to retire, Pullman turned to its own board for a successor and settled on Osborne, a paper executive who had recently sold out his company to St. Regis.

Last month it turned to the board again. This time it came up with Samuel B. Casey Jr., 43, chairman of the John F. Casey Co., a Pittsburgh construction firm that has handled such projects as Pittsburgh's Fort Pitt Bridge. Casey is far from an outsider. His father was a major stockholder in Swindell-Dressler, an engineering and construction firm that Pullman acquired in 1963. His stepfather,



Casey of Pullman

Frank R. Denton, is one of Pullman's largest shareholders, and a Pullman board member, and a former vice chairman of the powerful Mellon National Bank, one of Pullman's principal bankers.

One report recently implied that Casey's appointment means the liquidation of Pullman's freight car division, but the suggestion is patently absurd. Perfectly true, Pullman's freight car orders are off and its first-half earnings were down nearly a third to \$7.3 million, but the transportation division provided the bulk of those earnings as it has in most years out of the last hundred. The real squeeze had come in Pullman's engineering and construction division.

In fact, Casey's appointment does not imply a major change of direction in the solid, conservative old firm. It implies rather continuity—leavened perhaps with some youthful vigor and fresh outlook. ■

HIS MISSION: CONQUER THE LAST FRONTIER

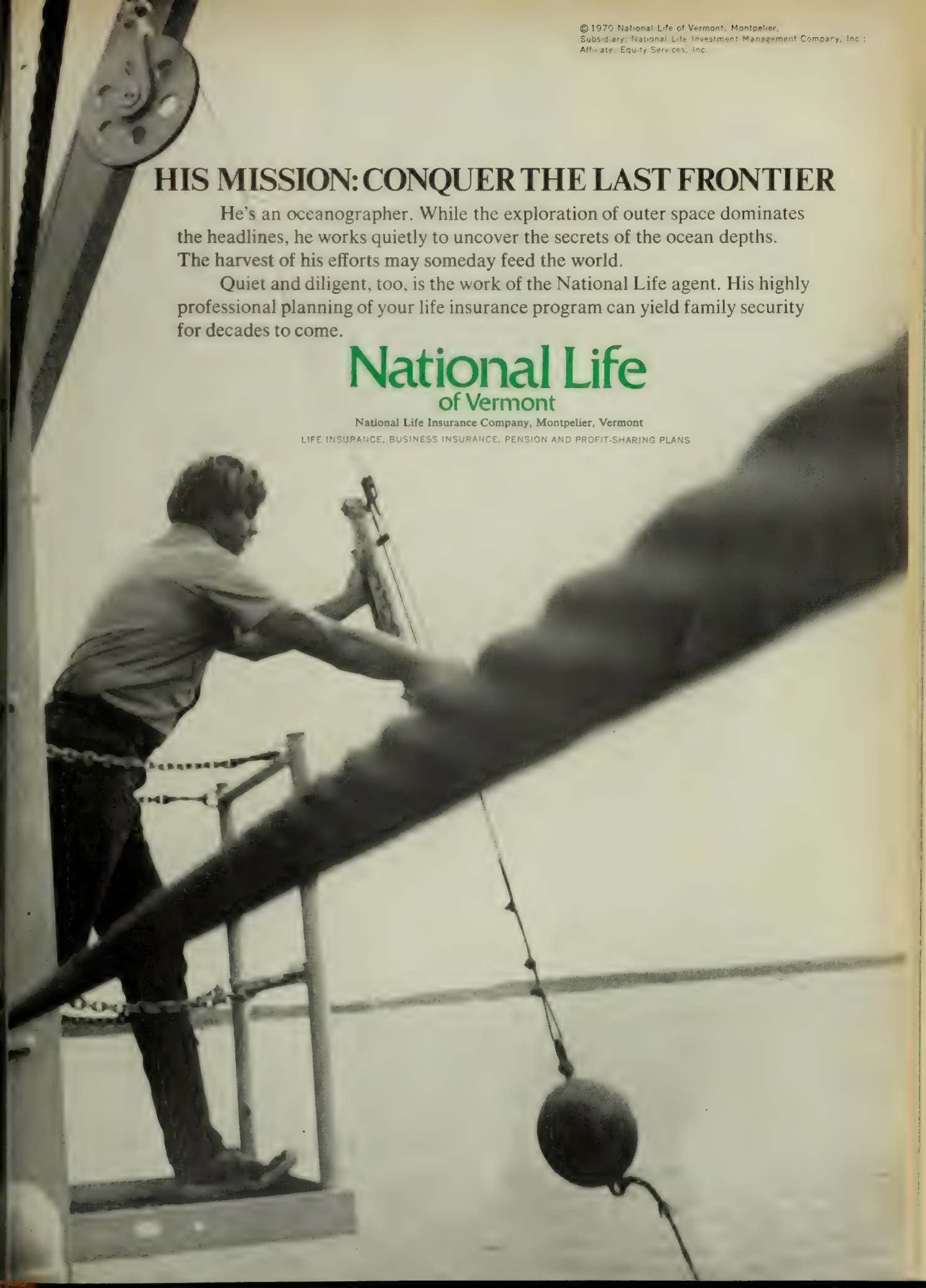
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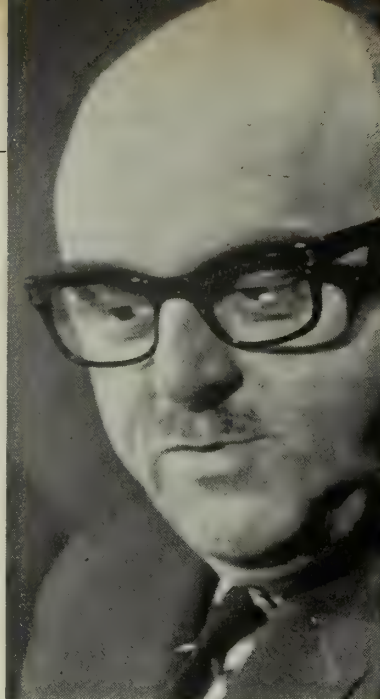


An Urban Affair

AMERICANS, all too familiar with the constant whine of problems their own large cities and city officials present, may recall with affection their visit to Expo 67 in Montreal. There *was* something different about that city.

It could be merely that Montreal is French. But it just may be that Montreal has a French lover who doubles as one of the shrewdest, most effective mayors around. Jean Drapeau, now 54, has been mayor of Montreal since 1954 with only one three-year break in his reign.

Drapeau's beloved Montreal has charm, yes, but also something that he defines as *esprit* and looks very much like vitality. It is evident in new expressways, a gleaming new subway system, new hotels and office buildings. These weren't inevitable. Montreal could have been just another Canadian city, competing with others for its share of modernization funds. But Drapeau did not want to stand in line. He pushed the idea of Expo 67, a World's Fair for Montreal and got the city's residents—some of them the wealthy financiers of West-



Mayor Drapeau of Montreal

mount—to put up the seed capital.

"Once we'd primed the pump with \$100 million of Montreal's money, you understand," he says, as if discussing *l'amour*, "the rest followed." The rest was the federal and provincial funds that modernized Montreal.

After Expo, Drapeau succeeded in keeping most of the Fair as a

tourist attraction called Man and His World. And now, he has brought the city the 1976 Olympic Games. "The money we shall spend for the Olympics would be money we would spend anyway," he says. "The Olympic Village will be Montreal's urban renewal housing."

Drapeau talks urban affairs as if they were a business, which of course they are. "Five years ago no American south of New York knew where Montreal was. Today, after Expo, with the Olympics coming, Montreal is discussed every day in newspapers, on radio and television in 130 countries. What would a business pay for such publicity, eh?" Drapeau winks.

Montreal, after all, was not different from other cities. It needed to modernize to remain vibrant as well as charming. Drapeau had to raise the funds to accomplish this. Shrewdly, he did so by sugarcoating his fund-raising with spectacle. "I'm no businessman, of course, but when I see the Metro [subway] for Montreal 20 years before we could have hoped for it without Expo, I sense what return on investment really is," he says, then smiles, then winks again. ■

Nothing To It

PIERRE SALINGER, onetime newspaperman, onetime press secretary to President Kennedy, long-time swinger, now is deputy chairman of Gramco, an offshore real estate firm.

"How did you ever become a businessman?" FORBES asked him.

Salinger: "Being a businessman isn't much different from being a reporter. You collect information and you make a decision based on that information. Businessmen have created a great mystique about business. Hell, any good reporter can be a good businessman."

Actually, Salinger is more of a salesman, a high-level salesman, than he is a businessman. Gramco is a peculiar company. It is the manager of something called USIF Real Estate. USIF is listed on the Luxembourg stock exchange, but has its offices in Nassau. Gramco itself is based in London. For all this complicated structure, Gramco's business is quite simple: It buys real estate in the U.S., then sells shares in the real estate to European and other foreign investors.

Gramco's top men are themselves a strange pair: Keith Barish, a 25-year-old Floridian, and Rafael Navarro, 34, a Cuban who was an official in the Batista dictatorship.

There have been a good many questions raised about Gramco lately. About its selling methods. About the prices it pays for real estate. About the big chunks it takes for itself out of the investor's money. Although Gramco is in real estate rather than in stocks, some people have drawn uncomfortable parallels between it and Bernie Cornfeld's Investors Overseas Services.

Salinger and other Gramco men shrug off such criticisms. Now 45, the portly, sideburned Salinger, lives in a lavish London hotel suite and commutes frequently to New York. How did he get involved with Gramco? "I had met Keith Barish when he visited the White House once with a group of Young Democrats. He phoned me one day, and that's how I'm here."

However, high finance doesn't occupy all of Salinger's time. He recently completed a novel about a world crisis that starts in "an imag-

inary Latin American country." He's a director of a movie company, and a part owner (along with such other swingers as Sammy Davis Jr. and Paul Newman) of The Factory, a Los Angeles night spot, a world away from the world of finance. ■

Salinger of Gramco



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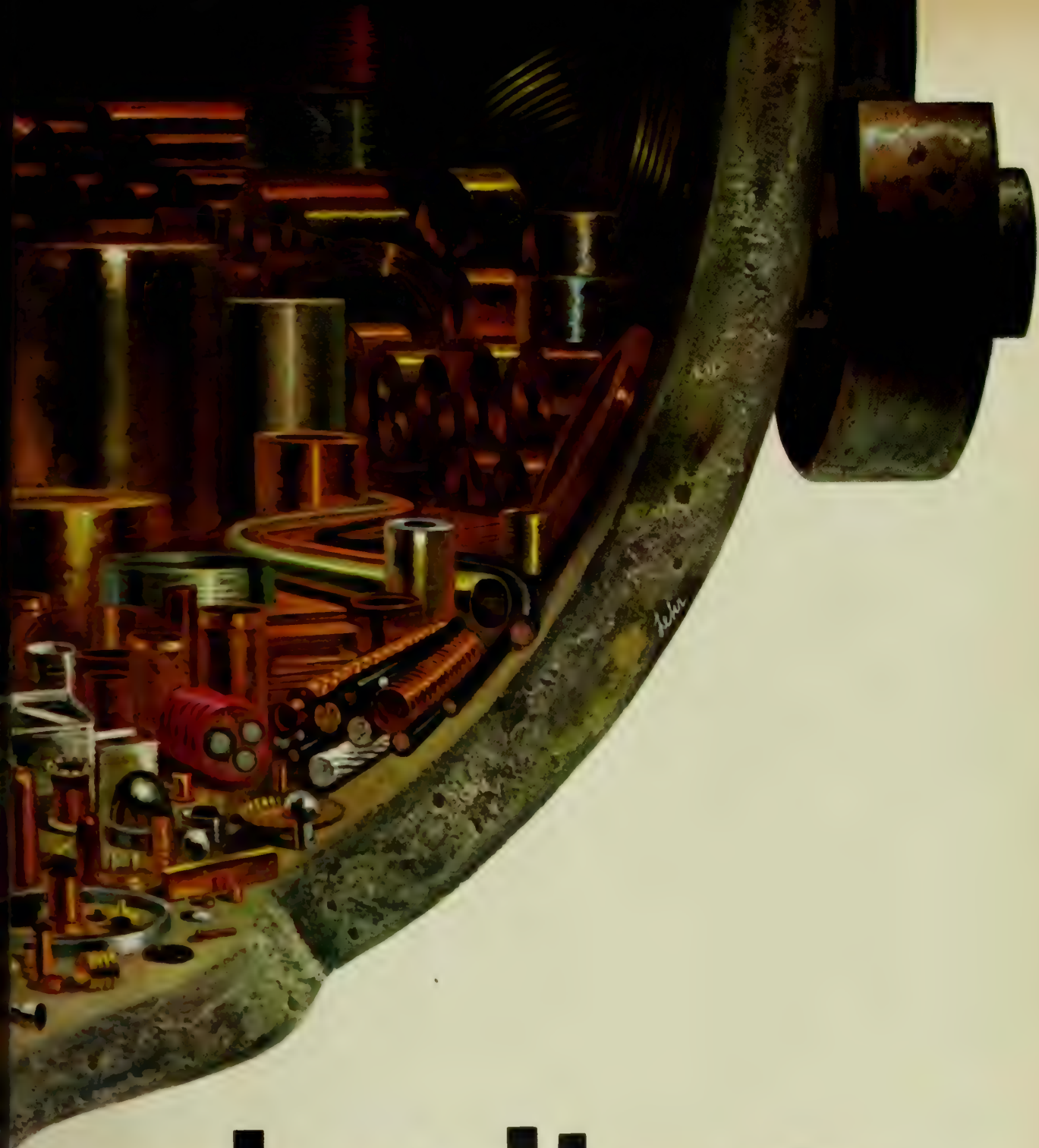


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Debt-Free Companies

Less than 18 months ago a company without long-term debt was considered to be a company asleep;

one that wasn't giving the stockholders the benefits of leverage. In today's tight-money market, that

may no longer be a virtue. Listed below are 55 Big Board firms with little or no long-term debt. ■

Company	Recent Financial Data					Stock Data			
	Assets	Net Working Capital (millions)	Net Income	Cash Flow	Stockholders' Equity Per Share	Latest Earnings Per Share	Indicated Dividend	Recent Price	1970 Price Range
Alco Standard	\$ 146.6	\$ 57.8	\$ 10.0	\$ 13.2	\$ 8.65	\$1.46	\$0.26	16½	23⅞-13
American District Telegraph	126.3	3.1	6.5	21.9	11.97	1.25	0.40	23	31⅜-19½
American Home Products	725.6	278.2	123.3	140.5	5.73	2.44	1.60	56⅝	71⅞-51½
American Hospital Supply	339.3	209.3	25.0	30.1	7.84	0.82	0.24	32⅜	47½-26⅜
Armstrong Cork	487.7	108.8	31.9	52.2	14.15	0.97	0.80	26½	35⅜-21¼
Briggs & Stratton	82.3	31.4	13.6	17.3	18.42	4.40	2.65	46⅝	59⅝-43¾
Brown Shoe	192.2	92.1	16.3	22.3	19.92	2.10	1.50	26⅞	36 -21¼
Campbell Soup	554.6	232.5	51.2	82.1	13.83	1.86	1.10	27¼	36⅞-24⅝
Carter-Wallace	114.6	60.2	11.6	14.8	10.74	1.48	0.50	14⅝	35¼-11
Chicago Pneumatic Tool	164.8	103.4	16.9	19.8	26.84	3.37	2.00	30¼	38½-27¼
Coca-Cola	870.6	199.7	121.0	162.9	8.60	2.16	1.44	72	86½-63
Communications Satellite	261.4	108.5	7.1	24.6	22.51	1.09	None	39	57¾-25
Donnelley, R. R.	271.6	59.4	21.2	35.2	10.80	1.10	0.44	15⅝	25¼-13½
Dravo Corp.	148.6	42.5	6.6	14.1	34.58	2.13	1.40	27⅜	36½-23
Dun & Bradstreet	186.5	89.8	21.3	24.3	9.83	2.13	1.45	44¼	59⅝-41⅝
Eastman Kodak	2,830.0	885.5	401.1	533.5	12.52	2.51	1.28	64⅞	84⅝-57⅝
Factor, Max	139.1	72.9	16.0	18.6	10.50	1.60	0.60†	35	47½-28¼
First National Stores	133.5	24.2	2.6	9.4	57.07	1.76	1.00	32¾	38¾-26½
Gardner-Denver	161.9	96.8	23.1	27.3	15.59	2.89	1.30	29¼	32⅞-22
General American Oil	200.3	10.1	18.3	35.7	32.86	3.49	0.60†	40¼	41¼-26½
General Motors	14,820.1	4,352.0	1,711.0	2,476.8	34.64	5.42	3.40	72	76¼-59½
Great Atlantic & Pacific	911.8	335.8	53.3	103.8	26.63	2.15	1.30	27¼	28¾-21½
Hewlett-Packard	240.4	89.4	25.6	36.7	6.75	1.01	0.20	25⅞	45⅞-19⅜
Howard Johnson	112.0	17.1	9.0	18.1	8.95	0.94	0.24	15½	20⅝-11⅝
Johns-Manville	501.8	144.0	41.5	56.6	23.28	2.18	1.20	35¾	37⅜-26½
Kellogg	317.1	70.6	44.6	57.2	5.58	1.28	1.70	21⅝	22 -19⅞
Libbey-Owens-Ford	380.2	106.7	40.1	56.1	16.94	2.68	2.40	34¼	45¾-28⅜
Lilly, Eli	538.4	182.0	83.5	97.4	11.79	2.74	1.40	87⅝	90⅝-77⅞
Lukens Steel	110.3	26.7	7.2	12.4	30.75	1.92	1.00	18	26½-15
Masonite Corp.	146.8	40.9	13.3	22.2	15.69	2.15	0.72	40½	41 -24⅞
Maytag	99.9	53.0	21.6	25.6	6.36	1.67	1.25	29⅝	30 -20¼
Merck	550.1	211.3	100.6	122.7	11.25	2.94	2.00	79¾	112¾-73½
Minnesota Mining	1,343.6	422.8	179.4	244.0	17.55	3.28	1.75	87¾	114¾-71
Norton Co.	292.6	132.6	16.1	28.9	38.02	2.90	1.50	25	33¾-23¼
Parke-Davis	399.2	112.1	20.8	30.6	14.28	1.11	0.60	20⅜	35⅜-13
Plough	96.7	54.4	15.8	17.0	7.90	2.09	0.68	61⅞	85 -55
Polaroid	484.4	297.9	61.9	76.4	12.91	1.92	0.32	67¼	130¾-51
PPG Industries	1,164.1	195.8	54.0	106.3	32.53	2.22	1.40	26¾	37¼-21½
Rex Chainbelt	150.0	65.1	9.6	13.7	23.84	2.69	1.50	28¾	39¾-25¾
Richardson-Merrell	311.6	109.1	28.2	35.3	11.18	2.73	1.00	51⅝	64⅞-46⅞
Rohm & Haas	449.8	137.4	33.5	64.4	55.64	4.93	1.60†	66½	85¼-55½
Safeway Stores	788.7	140.8	51.3	98.0	17.89	2.17	1.10	28⅝	30⅝-22⅞
Schering Corp.	178.3	69.7	27.5	32.1	7.43	1.87	0.80	49½	63⅝-46
Schlumberger	473.7	179.7	46.3	80.4	29.77	4.10	1.40	77⅞	88⅜-51¾
Shulton	90.5	36.7	7.7	9.1	18.06	2.19	0.80†	22⅜	42½-17¼
Smith Kline & French	242.2	76.9	40.5	46.3	10.78	2.89	2.00	43¾	55¼-37⅞
Sperry & Hutchinson	466.8	21.7	37.7	41.9	14.12	3.37	1.00	42⅜	59¾-32½
Square D	149.4	82.1	25.3	28.3	5.70	1.17	0.95	19¾	23¼-17⅞
Sterling Drug	370.8	163.6	51.8	58.9	6.46	1.41	0.75	33¾	43¾-27½
Stewart-Warner	122.5	47.6	12.7	18.0	22.70	2.77	1.80	26⅝	36 -22½
Timken	378.2	158.4	34.7	50.4	30.25	2.85	1.80	28	32 -25⅞
Upjohn	360.8	121.0	37.4	49.6	17.74	2.56	1.60	48	59½-32⅝
Hiram Walker	500.2	243.3	47.9	55.7	21.26	2.86	1.45	39⅞	50¾-33
Wrigley, William	131.1	57.3	15.6	19.8	55.19	7.90	5.50	110¼	111¾-88¼
Zenith Radio	336.5	153.4	39.6	51.6	11.82	1.46	1.40	33⅞	37¾-22¼

†Plus stock.

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Bonds also offer a chance for capital gains. If bond interest rates keep going down, as they have since June, recently issued corporates and municipals will probably go up in value. (Of course, a rise in interest rates would probably reduce their value.)

Another way to go after capital gains is to buy older bonds that pay a low rate of interest and now sell at a discount. For example, a major utility's 3¾ percent bonds sold recently for about \$880 each. They're scheduled to pay

\$1,000 when they mature in 1973, and the difference will be pure capital gains.

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Check your phone directory for the number of our nearest office. Or get it by calling 800-243-6000 toll free. (In Connecticut, call 800-942-0655).

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- What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders of durable goods related to inventories)
- How intensively are we building? (Dept. of

Commerce private nonfarm housing starts) Consumption

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

Income

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



The Bear Market is Over!

THE BIG MESSAGE is that the bear market is over. It ended in May when everyone thought we had a "liquidity crisis." Actually, the crisis was a few weeks earlier than the May 26th low in the Dow-Jones industrials. At that time the Federal Reserve already had begun to ease credit, as had been indicated in this column. It takes three to five months for a change in credit policy to find reflection in the stock market and in the economy. Since late August we have been feeling the favorable effects of changes in credit policy made months ago.

The Administration and the Fed simply did not have the nerve to go through with the deflationary policies initially adopted. It would hurt too much. Once again it is shown that democracies can't do extremely unpleasant things. The people vote. This column was saying something of the kind many months ago.

The rate of inflation was slowed down. The people who were most hurt were the investors in stocks and bonds. That was logical, because the worst excesses were in the stock market. A bear market, lasting 19 months,

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washed most of these excesses out. The economy did not deteriorate as much as the stock market because the economy was not as inflated.

The rate of inflation seems to have slowed down, but inflation has not ended. Many of the absurdities in expectations have been painfully eliminated. The productivity of labor has increased. Business has brought some of its excessive overhead under better control. The conglomerates have discovered that two and two don't make eight; and the performance funds have found that common-stock portfolios, in normal times, don't increase in value at the rate of 20% or 30% per annum compounded. All this has been most unpleasant; but we are beginning to realize that it was not the end of the world. After all, inflation is not dead; and perhaps we can live with it fairly pleasantly for a while—at this lower rate of price increases.

A Stronger Market

Take a look at the "technical position" of the stock market. That phrase means different things to different people. In its proper sense it has little to do with the lines plotted on charts. It really refers to the state of demand and

supply, entirely independent of essential investment value. The technical position of the stock market, or most of it, had been getting stronger for weeks when this big rally started in the final third of August.

The catalytic factors to make the market change from abnormal inactivity and discouragement were "more peace in the air" than there had been for years and evidence that the easier money policies of the Fed, adopted at least three or four months earlier, were beginning "to take." Washington's bullish "jawbone," so nakedly evident during July and early August, didn't hurt either. The DJI went through the 740 supply area like a hot knife goes through butter; and it looks as if the 770 level will be mastered to make the next supply area somewhere just under or just over 800. If this is a flash in the pan, it is a pretty big one.

Speaking homogeneously, the late August-early September rally was essentially technical. Many stocks were thoroughly "sold out," there was a big "short position," and just a little buying made a big price influence. Speaking heterogeneously, the relationship between the performance of individual issues and values back of them was exceedingly confused. Some stocks went up too fast; and other stocks, with perhaps an equal or bigger potential, did little or nothing. The stock market, in the case of many issues (not all) had not yet settled down to a value vs. price status. This makes contemporary comment on the relative attractiveness of specific issues fraught with unusual pitfalls. The commentator knows he should join the

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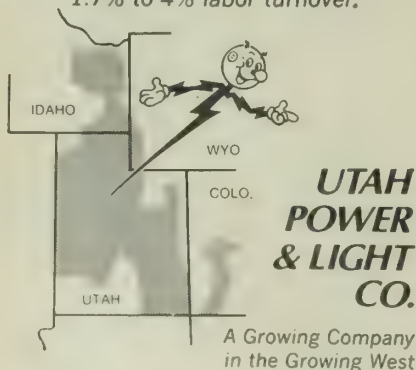
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crowd and "feel better," but he realizes that his selectivity easily can be more emotional than logical.

But this is a column of opinion, and the readers have a right to know how the writer is thinking—and why. I suspect that the biggest mistakes will be made by those who get too enthusiastic about the revival of the boom in *glamour*; and that the most money will be made either in the *blue chips* or in those backward issues which have been reluctant to join the bullish parade.

I can't see paying 105 or more for *Walt Disney*, if the best you can expect for earnings in 1972 is \$3.50 or \$4 a share. I question whether *International Business Machines*, earning \$9 a share and with a growth rate of only 10% or 12%, should sell at 25 or 30 times earnings. The company now is too big to provide geometrical growth—and so is the computer industry. I realize, of course, that in being cautious about IBM, I am in dangerous collision with the momentum of a stock market religion.

Switching to the extreme opposite end of the stock market spectrum, for the life of me I can't see why stocks like *Texas Gulf Sulphur* (15) and *Freeport Sulphur* (14½), both in extremes of unpopularity, are not worth much more than the price. Both of them are natural resource conglomerates, not just sulphur companies. I think we know everything bad about stocks of this type, and that we refuse to bother to see the good.

For weeks I have been saying, in this column, that I like the "big" oils and the airlines—and both groups have been acting better. The other day I compared the year's low with the then current prices and found that *Amerada Hess* (36%) was up 93% from the 1970 bottom, that *Superior Oil* (146) was up 64%, and that staid old *Standard Oil (N.J.)* (65%) was up 35%. The airlines also have done well, chiefly on hope of better things rather than on undebatable tangibles. I still think that stocks like *Delta Air Lines* (29), *KLM* (39) and *American Airlines* (21) are desirable things to own.

The *mobile homes* issues, in my opinion, are getting too high to buy. Some of the better ones are up 90% to 100% from their bottom. In going around the country, I am impressed with the big inventories of mobile homes, campers and the like. I think the industry, in spite of all its marketing advantages, has overproduced. A 20-times earnings appraisal for these stocks may be justified by past earnings performance, but I doubt if it is justified by the immediate future.

Federal National Mortgage (45, up from the year's low of 30) expects to

buy a tremendous amount of real estate mortgages between now and the end of the year. This company's acquisition fees are substantial and there is a slow improvement between the cost of money and what the borrowed money earns in mortgages. Earnings this year won't look large in relation to the price of the stock, but the trend in money rates is very much in favor of it. There is exceptionally high leverage in this newly listed stock. That leverage, of course, means wide fluctuations in price. It still is my favorite glamour stock.

If there is any one thing of which investment analysts are convinced it is that there is a boom in housing coming. The public wants and needs more houses, and Washington is intent on finding ways to stimulate building. The stock market anticipates rather than reflects; and the building-related stocks usually respond much better to an increase in housing starts than to a fast rise in earnings. There is a difference of opinion as to the trend in housing starts for the rest of the year; but if the stock market is to continue enthusiastic till election time, the building stocks may not wait. Housing boom beneficiaries should be *National Gypsum* (19%), *Weyerhaeuser* (51%), *Jim Walter* (30%), *Georgia-Pacific* (52%), *U.S. Plywood-Champion* (quite deflated at 29) and *Union Camp* (30%). My old favorite, *McCulloch Oil* (26%), also is in the picture.

For the Small Investor

Because *FORBES* reaches many small investors, as well as most of the big ones, I constantly receive fan mail from many little investors asking me to suggest stocks to accumulate in small odd lots for educational or retirement funds. For these people odd-lot fees and commissions usually are as large, or larger, than the load on good mutual funds. The mutual fund provides a diversification of risks the small investor can't obtain with his limited funds, and a convenient vehicle of accumulation. Moreover, it eliminates a danger-fraught do-it-yourself process which often results in indifferent success or failure. I believe in mutual funds for small people. Usually I advise avoiding front-end load plans as unnecessarily expensive. Funds are all right, too, for the investors who want to abdicate management. I like the conventional conservative funds much better than those which aim at fast performance. I know many people have had unpleasant experiences with funds these last two years, but I think better days are ahead for the funds that don't try too hard. ■

THE MARKET OUTLOOK

By Sidney B. Lurie



The New Specifics

THIS, in my opinion, is a period when it's easy to overgeneralize. For one thing, emphasis on either the obvious debits or subtle credits can obscure the continuing shifts in issue emphasis taking place beneath the surface of the popular averages. Secondly, the basic truism that "the market" is a business of specifics has been heightened by today's new tests of issue ownership and attraction. In turn, the fact that this is *not* the time for interest in secondary companies that require overall prosperity for sustenance can result in individual casualties which color the improving prospects for other companies.

Illustrative of the point, I continue to see signs of a better automotive year in 1971 than 1970. Not only is there a theoretical backlog of deferred demand, but the high rate of savings means that the consumer has the financial resources with which to satisfy his needs once psychology improves. Only a slight change in attitudes would spark demand, and the change could come about as a result of newly styled standard cars or the new subcompacts. Apropos of the foregoing, I see a comfortable value in *Libbey-Owens-Ford* (around 34, paying \$2.40, with a 1969-70 range of 59-28). For one thing, the full operating benefits of being the largest producer of float glass in the world will show up in improved profit margins next year. Secondly, there will be more glass per car in the 1971 models and more premium-priced products such as tinted glass and antenna windshields. L-O-F supplies some 75% of General Motors' needs. I believe the company's earnings this year could be \$2.75 per share as against \$3.18 in 1969 and I visualize substantial improvement in 1971.

In like vein of thought, certain of the factors that bear on the overall economic outlook also have constructive implications for the outlook of the banking business. The inflow of money since June via a huge increase in certificates of deposit has permitted the major money-center banks to pay off more expensive Eurodollar borrowings and increase their lending and investing base. Secondly, the decline

in interest rates since early June and the prospect that this will continue as corporate capital spending and inventory borrowings decline suggest that the major credit market strains have passed. All of which points to a better balance between the cost of funds and bank lending rates in coming quarters. And, of course, bank stocks usually rise when interest rates fall. *Bankers Trust* (around 66, paying \$2.84, with a 1969-70 range of 83-55) and *First National City* (around 60, paying \$2.40 with a 1969-70 range of 82-55) appear attractive. Both banks should earn in excess of \$5 per share this year and further improvement is indicated for 1971.

Brightening Prospects

As was noted in past columns, my hope for a better economic environment is bolstered by the prospect that the *residential building* industry has turned the corner. This is perhaps the only major industry with an enormous potential backlog of deferred demand. Theoretical demand may be limited by the fact that at least half of the nation's families have been priced out of the traditional housing market. And the market for old homes has to improve before new residential building activity can display real vitality. But the climate has changed via improving financial factors plus a positive Administration attitude—and the climate could be the key to the future.

The fact that something new has developed in the outlook for this traditional industry points up the brightening background in another major area of the economy, the *chemical* business. Total chemical industry capacity, which increased 8% to 10% per year in the Sixties and which created excess capacity in many product lines, will probably grow much more slowly in the Seventies. Secondly, the new competition which developed in the last decade from companies seeking diversification in a high-profit-margin business will probably lessen considerably and may even disappear. As a result, the price erosion of the Sixties which prevented 8% annual volume increases from being translated into profits could be over. Granted that demand for many chemical products is cyclical, this is an innovation in-

dustry which is constantly developing new products. And past problems seem to be well recognized in currently deflated multiples.

Time can be one of the market's strengths as well as a problem. For example, second-half earnings' comparisons should make more pleasant reading than first-half results, if only because the earnings trend turned downward a year ago. However, there is little question but that a specifically better business environment is required to provide new overall buying incentives. This because the physical volume of business activity holds the ultimate key to corporate profits, liquidity, etc. Bearing in mind that summer is an in-between period in even the best of times, that modest upturn I anticipate could be slow and halting, positive inspiration probably won't be available until mid-September.

My belief that the fall business environment will make more pleasant reading rests on more than the National Association of Purchasing Agents' report of a June upturn in new orders for the first time in seven months, as well as a less-than-expected decline in July. Rather, it seems to me that—with corporate inventory accumulation having slowed considerably in the past year and corporate money demands likely to be substantially less this year than last—there is a good possibility of still lower interest rates by yearend. Moreover, the psychological pickup that always comes with fall should result in an upturn in consumer spending.

All of which is not by way of forecasting a new boom. I still believe that our overall economic progress will be slower in coming than in past years. At best, it will take time to make the necessary readjustments to a sound base that sustains overall progress. Meanwhile, the absence of general enthusiasm seems more characteristic of a bottoming-out period and the new competition from the bond market than it does an oncoming wave of speculative disillusionment. The resemblance to the early post-World War II years, when the market as a whole held within a broad trading range but a wide diversity of individual issue price changes developed, is quite marked.

This is not meant to imply that there are grounds for a wholesale interest in all stocks. The new specifics of this period point to emphasis on certain areas of the marketplace, such as discount bonds and oils, but avoidance of others, notably the 1968 and 1969 speculative favorites. This is a time for interest in companies with demonstrated earnings ability rather than past market volatility. ■

Mr. Lurie is a partner in the New York Stock Exchange firm of Josephthal & Co.

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STOCK ANALYSIS

By Heinz H. Biel



Bears On The Run

THE STOCK MARKET didn't wait until Labor Day to make up its mind. The mid-August breakout was decisive and, I believe, convincing. Coming in the midst of the summer doldrums, it caught investors by surprise. At the time, the short interest was unusually large, particularly when related to the low trading volume then prevailing, and the mutual funds were as liquid as they are generally prone to be when they view the stock market outlook with a jaundiced eye. No one, of course, knows how much pension fund and trust money was being held by the banks in anticipation of a more propitious investment climate for common stocks.

There was no specific news development to trigger the sudden reversal of the market trend. Only a psychiatrist may be able to explain mass psychology. However, once the move got under way, the bears ran for cover. It isn't pleasant to hold short positions when the market breaks out on the upside; and it is quite an embarrassing spot for a fund manager to be caught sitting on too much cash when his long-suffering shareholders expect him to recoup their losses.

An Encouraging Market

In the previous *FORBES* issue, which was written before the market had changed its mind, I said that this could be the great buying opportunity of the Seventies because the risk/reward ratio in just about every segment of the market had rarely been more favorable. It is much too soon, of course, to pat oneself on the shoulder for having been right. The final verdict is many months away. However, I am encouraged by the market's recent performance not only because volume as well as prices are up and the leadership is good, but also because it is gaining in breadth. In the last week of August, for example, 1,444 stocks on the New York Stock Exchange advanced and only 236 issues declined. We even had a fair number (78) of new 1970 highs, including some of the most prestigious names like General Electric, Standard Oil of New Jersey, du Pont, Ford, Kroger and Weyerhaeuser.

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Taking a more positive attitude toward investing in equities should not mislead us into believing that the DJI is likely to go straight back up to a thousand. Although Washington has been feeding us a steady diet of comforting economic news, many ugly problems are still unsolved and could prove to be quite troublesome for the stock market.

With Election Day coming up in seven weeks, any unpleasantness will be swept under the carpet as much as possible, but such nasty matters as a towering budget deficit and continuing inflation will not go away by ignoring them. The dollar itself is wobbly, although not much has been said about the balance of payments deficit ever since this country, in effect, demonetized gold. It's rather a callous way of stating the situation, but unless we succeed in exporting our inflation to Western Europe and Japan, the dollar will have difficulty in maintaining its value in relation to other important currencies.

In addition, we have to remain concerned about corporate profitability which, although improving, still leaves much to be desired. The same goes for corporate liquidity. Those which can do so are restoring it through the sale of intermediate or long-term debt obligations. However, as soon as stock prices recover a little more, many corporations will, and will have to, sell stock in order to improve their equity ratio. I don't think we will have to worry about a scarcity of stocks for quite some time.

Deliberate Speed

For these and other reasons, some of them technical, it will not be necessary to be in a great hurry to complete the reinvestment program. Unless he is entirely out of the stock market, the long-term investor can afford to take his time and proceed with deliberate speed. However, if the assumption is correct that this is not just another bear market rally, but that in fact the major trend has turned up, then there should be a change in strategy: Instead of fearing setbacks in the market, they should be welcomed as opportunities to buy.

We have been brought up with the belief that our country is blessed with

virtually unlimited natural resources. Therefore it comes as a shock to many to learn that the U.S. is facing a shortage of the main sources of energy—coal, oil and gas. Space considerations make it impossible to discuss the reasons for this sad state of affairs or how the problem will be solved. But one thing is sure: Control of these energy sources is a most desirable asset. This explains why the stock of such natural resource companies have done so well this year, and why this group should be well represented in any investment portfolio.

Premature Obit

The hope, or fear, depending upon which side you look, that atomic energy will put the oil and coal industries out of business—a not uncommon thought in the late Forties—proved to be grossly premature. The technical feasibility of nuclear power has misled experts and laymen alike. It will still be necessary, probably for many years to come, to rely on the basic fuels—to continue to find, to produce and to bring them to the market.

Little has been heard recently about the major oil discovery at Prudhoe Bay in Alaska, the principal reason being the long delay in the construction of pipelines which conservationists believe would adversely affect the ecology of the region. A solution must be found and obviously will be found. A major pipeline builder like *Williams Brothers Co.* (27) would be an obvious beneficiary.

Oil Service Stocks

The search for oil and gas continues relentlessly and occasionally with outstanding success, as in the North Sea, for example. This not only adds attraction to companies which have a participation in these developments, but also to companies which provide important services to the oil industry. My preferences in this area are *Schlumberger* (77), *Halliburton* (39) and *Baker Oil Tools* (20).

Many large coal companies have been merged (Consolidation Coal into Continental Oil, Island Creek into Occidental Petroleum, etc.) and few desirable independents are left. My first choice is *Pittston Co.* (27), a superior market performer this year, whose earnings are rising steeply as old contracts are being renewed at steeply higher prices.

A far more speculative but nevertheless rather intriguing stock is *Kaiser Resources* (11), listed on the Toronto Stock Exchange, which is developing high-grade coking coal properties in British Columbia, largely for the Japanese market. Kaiser Steel owns 75% of Kaiser Resources stock. ■



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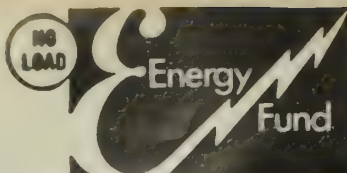
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STOCK TRENDS

By Myron Simons



Personality Profile

Stocks have personalities, just as human beings do. Some stocks are high-multiple personalities and some are low-multiple personalities.

I hasten to add that all this is very germane to the question of where to put your money today. A good many analysts are saying that the glamour stocks are still too high, that they will have to come down. I'm saying: Not necessarily so; some stocks are *always* high-multiple stocks, so long as their reputation, their personalities, remain intact. I'm further saying that although some of the high-multiple stocks *do* have sinking spells, they may well be excellent buys right now.

That may not be logical but it's true. No matter what you do with certain stocks they remain 10-timers. And others, while they may have their weak moments, usually get back to being high P/Es. It's not just a matter of earnings trends. Produce a steel company whose earnings suddenly surge, and you'll probably have a 10-times earnings stock. But take a hospital supply stock whose earnings take off and you'll probably end up with a high-multiple stock. As I say, it's a matter of personality.

Overpriced?

Even past growth rates often take a back seat. Compare Revlon, whose earnings rose from \$2.03 a share in 1965 to \$2.33 in 1969, with First National City Corp., which in the same period saw its earnings grow from \$2.44 a share to \$4.41. Yet Revlon sells at over 26 times its latest 12-month earnings while First National City sells at only around 14 times. Does this mean that Revlon is overpriced? Not as long as its basic personality doesn't change.

Talking about personalities, take Coca-Cola. In every year since 1960, it has sold at 29 or more times earnings; even after the long bear market it keeps a multiple of 32 times its latest 12-month earnings at recent prices. Or Avon Products, which has gone to at least a 40 multiple of its earnings in each year of the 1960s and at 69 still sells at 44 times its latest 12-month profits. Or American Home Products, consistently showing a mul-

tiple in the lower or middle 20s.

Sometimes, however, a genuine high-multiple personality has a sinking spell. It gets depressed—literally. Thus, as the long bear market ends, some of the best buys can be found among genuine high-multiple stocks that have gotten temporarily depressed. Such stocks, if you can find them, are more than likely to regain something like their traditional market personality.

A good example is ITT (41). Most of the time in recent years the stock of this excellently managed company has sold at 20 or more times earnings. You might say it is a *true* 20-times stock. But now it sells for only about 12 times its latest 12-month earnings.

There is no very sound reason for ITT having performed so much worse than the market, so much worse than most other growth stocks. I expect that ITT will regain part of its multiple. It has sold as high as 25 times earnings in recent years. With 1970 earnings likely to hit \$3.20 a share, if it were to climb even part way back, ITT could sell in the 50s or 60s as against a recent 41.

The trouble with this advice is that not every deflated P/E stock is an ITT. Some of them deserve to be deflated. Maybe they never were genuine high-multiple. Or maybe they were *once*, but are no longer. *Litton Industries*, for example. For more than a decade it was a high P/E stock, never below 20 times earnings and more often at 35 or better. Now Litton is selling at only 10 times earnings. Will it go back to 20 or better? Not unless it can once again demonstrate consistent year-to-year growth. After a series of earnings setbacks, Litton no longer enjoys a high P/E personality. The whole aura, the personality if you will, of the stock has changed. It is a very different case from ITT, a company whose earnings have continued rising and whose basic growth trend remains undisturbed.

I am listing below the criteria I use to determine the genuine high-multiple stocks. It is my stock market personality profile, you might say:

1) Check the earnings estimates for the future as carefully as you can. If a company's rate of growth is changing, so may its P/E personality.

Mr. Simons is a partner with the NYSE firm of F.I. duPont, Glore Forgan & Co.

2) Be especially careful of young, upseasoned stocks. They can blow hot and cold. Like children, some days they can be angels, and some days brats. That doesn't mean that you have to avoid them. As with children, you can tell something about their potential even though they're young. The trick is to buy them when they're acting like brats in the hope that you can sell them when they're angels.

3) Most stocks move up in bull markets and down in bear markets. Good indications to sell are given when a stock sells above its characteristic multiples. Buy signals come when they are selling below them. But don't apply this too literally. All values are relative. Growth multiples are likely to be lower when interest rates are 9% than when they are 5%. Be sure that the stock you buy is depressed in relation not only to its own personality, but also to the environment in which it exists.

Avoid the Phoneyes

4) Watch out for attempts to manufacture a personality which isn't real, just as you would avoid a man who pretends to be warm and kind and secretly kicks dogs and children. A number of the worst disasters in the 1969-70 bear market were stocks with phoney personalities, where an attempt was made to show a high rate of earnings gains by questionable bookkeeping methods. For goodness sakes, read the footnotes to the financial statements!

I've singled out ITT. There are others. If IBM's (around 270) outlook for next year is for the resumption of more dynamic growth—perhaps to earnings at the \$10 level—I expect the stock to return to a multiple of over 30 times those earnings. *Bell & Howell* (33), which sold at well over 20 times earnings in each year of the 1960s, now sells at 15 times. Its earnings, which declined last year, seem poised for a snap back to \$2.15 a share from 1969's \$2.01; *Bell & Howell*'s multiple could well come back at least a part of the way. *Addressograph-Multigraph* (32) is now selling at about 16 times estimated earnings of \$2.10 a share for the fiscal year that ended July 31, with a snapback to the \$3 level estimated for the coming year. At some time during each year of the 1960s it sold at least 20 times earnings and often much higher.

Remember this above all: High price/earnings multiples should not frighten anyone if they are justified by prospects. The shrewd investor isn't looking for statistical bargains. He's looking for stocks to go up, and often a high-multiple stock is a better buy than a low-multiple one. ■

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August 28, 1970

TECHNICIAN'S PERSPECTIVE

By John W. Schulz



The August Breakout

ON Aug. 21, having risen sharply on four consecutive trading days, the Dow Jones industrials broke through their July double recovery top at 743.36. In the same upswing, this average also penetrated its major downtrend, which most technicians recognize as defining the course of the 1969-70 bear market.

These events were, and still are, of more than casual interest. For one thing, the Dow's ability to climb vigorously beyond the 740 level, from which it lapsed into panic last May, should mean investors, collectively, finally realized that the risk of yet another panic had receded to the vanishing point. Not unexpectedly, the realization jelled when the Federal Reserve Board, in a move traditionally associated with relaxation of credit restraint, reduced certain bank reserve requirements, and thereby enlarged the volume of lendable funds within the banking system. Though modest enough to silence fears of new monetary inflation, this step was clearly intended to reemphasize the central bank's determination to promote a new economic recovery and to assure the business community that its liquidity problems would not escalate afresh when the economy eventually does begin to grow again.

The Speculative Bears

As readers will recall from earlier articles in this space, FRB measures to increase the supply of money and credit could all along be regarded as key elements in the base-building process needed to arrest and reverse the bear market in common stock prices. Two days after the cut in reserve requirements was announced, another building block was added to the base structure. The New York Stock Exchange reported that the short interest in Big Board stocks (that is, the total of all shares sold short but not repurchased) had grown by no less than 10% between mid-July and mid-August. At over 20 million shares, the new short interest was equal to twice the average daily trading volume on the Exchange for the preceding four weeks, compared with short-interest ratios of 1.97 for

July and 1.36 for June. Unlike the jump in the July short-interest ratio, last month's smaller rise was due to an increase in the volume of open short positions rather than to a drop in trading activity. It thus appeared to reflect substantial intensification of speculative bearishness and a material addition to the volume of latent demand from speculators who, sooner or later, can be expected to repurchase the shares they have sold short.

There is some irony in the circumstance that short sellers were increasingly aggressive at a time when the Federal Reserve Board was obviously working to shore up confidence among businessmen and investors and could reasonably be expected to continue doing so until the economy, as well as the capital markets, was out of the woods. But the historically constructive technical implications of a short-interest ratio around 2.00 were not lost on a stock market already encouraged by the reserve requirement cut; investors and traders alike sensed a possible "short squeeze" and rushed to take advantage of it by buying common stocks at rising prices. When, at the end of the same week, reports circulated that an automobile industry strike might be avoided, the rush to buy became a stampede which helped the Dow stage the upside market breakout of Aug. 21.

From a strictly technical viewpoint, the breakout was significant on several counts. As noted at the outset, it involved penetration of the Dow's major downtrend line. Technicians normally regard violation of a trend line—whether plotted by inspection of a chart or computed in the form of, say, a moving average—as an indication of a shift in trend direction. As pointed out here on Aug. 1, it had been possible for some time to argue that the major trend of the overall stock-price movement ceased to be down at the end of May and turned flat during June and July, thus laying the ground work for a further shift to the upside. This shift began to be visible, at least for the Dow, when the industrial average advanced vigorously through its major downtrend line and to new recovery highs last month.

If, accordingly, the major trend is now up on the industrial blue-chip

sector, of which the Dow is fairly representative and which usually has led the general price movement in the cyclical transitions from bear to bull market, it seems reasonable to assume that the major trend will, before too long, turn up also for the market at large. At a minimum, I think, the Dow's new major uptrend means the bear market is indeed over for a large majority of common stocks—that the prospects of new lows in the broader-based price indices have become mighty dim. Either of these assumptions, carried to its logical conclusion, would call for regarding any significant price weakness during the intermediate term as a desirable long-term buying opportunity.

Lingering Suspicions

By conventional technical standards, however, it will probably still remain difficult for quite some time to recognize the existence of a new general bull market. Hard-nosed Dow Theorists will insist on seeing the Dow Jones industrials breakout to new recovery highs last month "confirmed" by an advance of the DJ transportation average (formally the rails) beyond the latter's June rally top near 147. Considering that the DJT stood barely above 130 when the DJI staged its breakout, this confirmation and a resulting Dow Theory "bull market signal" seem unlikely to materialize in short order.

Other technically oriented investors and analysts may refuse to recognize the existence of a new bull market until the Dow succeeds in passing its April rally top (803.26), where the presumably final downswing of the bear market began. Until then it will be impossible to state unequivocally that the string of "bear market rallies," from successively lower lows to successively lower recovery highs, has been broken. Moreover, many investors would probably want to see a move beyond Dow's 804 confirmed by advances in the broader-based stock indices to levels above their respective April highs. It seems somewhat questionable that the necessary gains—of about 12% for the Standard & Poor's industrials and about 15% for the NYSE composite average from their Aug. 21 levels—could be scored any time soon.

Under the circumstances, I doubt that last month's DJI breakout can generate enough confidence to fuel a long-sustained uptrend in either the Dow or in the market at large. Another phase of base-building—most of it, I would think, in the mid-700s of the Dow—may have to unfold before the conventional bull market signals can "flash." ■

Mr. Schulz is a partner in the New York Stock Exchange firm of Abraham & Co.

The Funds

Tax-Equences

IT IS A FACT that many mutual fund purchasers over the past 25 years have been buying—sometimes unknowingly—rather substantial tax liabilities.

To simplify, it works like this: Supposing a fund has \$100 million worth of stock for which it paid just \$60 million. Then suppose it turns its portfolio over, selling all the stock. It thereby reaps a \$40-million capital gain, which it pays out to shareholders and upon which they must pay a tax. But what about the shareholder who bought in just before the portfolio was changed? He is in a peculiar position. He has no capital gain, yet he gets a capital-gains distribution and must pay a tax on it. This, of course, is an extreme example, but it illustrates what has actually happened: In buying many mutual fund shares, many investors were buying capital-gains liabilities.

But the world is changing. Capital gains have in many cases turned into losses. Behold! Instead of buying themselves capital-gains liabilities, many of today's fund purchasers are buying themselves tax credits. It works like the above example but completely in reverse.

As a result, many funds will be able to offset new capital gains without distributing the proceeds—and without the stockholder paying a tax on them.

This, of course, could be bad news for those who enjoy those capital-gains payouts. But it could be good news for those who like to see their capital grow without having to pay taxes on the growth.

We are not talking pennies. Big money is involved in all this. Take the \$5.4-billion stable of funds run by Investors Diversified Services. Like everybody, the IDS funds have suffered in the long rough bear market. All IDS funds now list two additional items in all their reports: Undistributed net realized deficit on investments; and unrealized depreciation of investments.

Suppose you buy shares in an IDS fund? What happens? Well, the fund can carry long-term capital losses forward for five years and net them against future capital gains. Instead of these new capital gains being distributed and reinvested most times to buy new

shares, IDS will simply build up the net asset value of old shares at no tax liability to the shareholder until the tax-credit carryforwards have been used up.

Similarly, unrealized capital losses mean that the IDS portfolios can appreciate to the point where the current unrealized losses are wiped out, without producing a tax liability for shareholders. In contrast, the same performance by a new mutual fund, or an old one with unrealized capital appreciation on its books, would result in taxation to its shareholders.

If all existing mutual funds were to perform equally well in the future (which, of course, they won't), then the tax consequences of investing in different funds would be startling. If you invest in Massachusetts Investors Trust, you would be buying into a mutual fund where the cost of its blue chips was

No one wants to pay taxes if they can be legally avoided. Yet performance, not tax shields, should be the prime concern of mutual fund investors.

about \$478 million below their market value. Thus, on every one of MIT's 146 million shares there is a potential taxable gain of \$3.27 compared with the current net asset value of \$13.01.

Putnam Growth Fund's securities are \$100 million below their cost, which means that the Putnam portfolio could appreciate \$1.45 for each mutual fund share without producing potential taxation.

The potential tax shelter from new investments in IDS funds goes all over the lot. Investors Variable Payment has 92 cents per share in capital loss carryforward and another \$1.10 per share in depreciation of market value of stocks below their cost. IVP's sister fund, Investors Mutual, has but 3 cents and 6 cents, respectively.

For the investor who really would like to escape potential taxation and still invest in mutual

funds, the disaster area of the performance funds offer an intriguing situation. The net asset value of the Mates Fund is \$3.23 per share in its most recent report. But Mates also has \$2.66 per share of net unrealized depreciation of stocks below their cost and 43 cents more per share of net realized loss on investments, which can be carried forward in the future to offset capital gains for five years. The situation is similar for scores of the swinging performance funds. Manhattan Fund, net asset value \$4.28, has \$2.07 per share of unrealized depreciation of stock below its cost and another \$1.20 of capital loss carryforward. Hemisphere Fund's capital shares, net asset value \$1.46 are backed by unrealized capital losses of \$1.89 per share and tax-loss carryforward of \$8.36.

There is a rub in these go-go mutual funds with very steep tax shields. The tax shields exist because their performance has been poor. To realize the potential tax benefits, the funds will have to perform well and generate gains. They may not be able to do it.

To prevent tax benefits from running out, unless they can perform spectacularly in the next five years, some funds may have to merge with funds with large unrealized capital-gains situations. Otherwise, the credits will simply go to waste.

Existence of these capital losses offers another advantage to mutual funds. In the past, many of them were reluctant to sell certain growth stocks in which they had huge long-term capital gains. Had they sold them, not only would they have exposed their stockholders to taxes, they would have had to pay out a huge part of their portfolio in capital gains. But now many fund managers have capital losses they can use to offset gains on these stocks, thus greatly increasing their portfolio flexibility.

It is only fair to remind investors that this tax break has strings attached to it. The only way you can escape capital-gains taxes forever is by dying. If you eventually sell your shares, the difference between what you paid and what your shares now are worth becomes taxable. As long as you hold your shares, however, you *do* have the pleasure of watching your fund shares grow in value without the pain of paying taxes as you go.

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Herrmann of Tamarack

Postgraduate Sailing Course

THE 20-month bear market has taught 41-year-old MBA Lacy B. Herrmann what the Harvard Business School meant at his 1956 graduation when they said he was embarking on "a continuous voyage." Herrmann, who manages over \$10 million, certainly seems more serious and philosophical heading his private investment partnership than he did in the carefree early Sixties when he spent six years at Johnston Mutual Fund.

Starting up Tamarack Associates, Herrmann later knew the thrill of increasing assets over 100% in a single year. But he now concedes that like most young money managers he made mistakes. For example, he went into some letter stock, which became illiquid.

In spite of his painful experience of dipping into his own capital to live, managing money in a bear market is giving Herrmann a necessary part of his education. "School isn't out yet for the young money managers," he says, "because you can't be an effective money manager unless you've lived through a period like this."

Based on his own personal experience, Herrmann believes the financial and psychological pressures of the bear market will force many of the managers of smaller mutual funds and private investment trusts out of the field. "I don't know of a single hedge fund where the managers are not dipping into their own capital to live," he says.

Herrmann figures that a mutual fund should have assets of \$40 million before its managers make any "real" money, but new assets don't

flow in a down market. That means that the rising unavoidable expenses that go with running a fund—office space, secretaries, etc.—keep the small fundsmen hard-pressed. "You can buy a little fund for a song (\$75,000), but who wants one?" he adds.

Seeing a period ahead when profits and the market aren't going to improve quickly, he believes "most small mutual funds aren't going to pick up those badly needed new assets and that hedge fund managers who are only paid after producing absolute gains—not simply beating the Dow—will have their trouble too."

"The length of the bear market is causing a psychological testing of the new money managers," says Herrmann. "We used to call the old-timers depression-scarred. But a lot of young money managers are now bear-market-scarred. Why, some days last May, the market would wipe out 1% to 2% of managed assets and you had nothing in your own personal experience to compare it with."

Herrmann feels that he can take these psychological pressures better than the more recent MBAs. "I'm very grateful I've been in this business ten years instead of three years. At least I was prepared for the fact that the market wouldn't always go up. Now the same guys who said they loved the tempo when they made fantastic promises and kept them, can't stand the tension. Obviously, there is nothing a money manager can prudently do this year to get a 50% gain, but some are still trying and the pressure is too much."

What qualities does a money manager have to have to be an effective money manager and last out this storm? Besides imagination, Herrmann feels you must be pragmatic (able to accept and make the best of a situation) flexible (you may believe in stocks but there are times to be short or in bonds) and resilient.

Of all these qualities, Herrmann feels the last is the most important. "When I went to the Harvard Business School they stepped all over you in the first year and if you couldn't take it, you left," says he. "It got me in the habit of bouncing right back. It's the one reason I know I'll still be a money manager when this is over." ■

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COMPUTER PACKAGE

4 WELL-DEFLATED STOCKS

Even though many of these stocks are down to levels that have not been seen in years, United feels that this industry still has considerable growth potential. This United Report recommends the purchase of 4 computer stocks selling from 30-65% below 1970 highs.

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The Board of Directors has this day declared a dividend of 24¢ per share on the Common Stock, payable October 1, 1970, to stockholders of record at the close of business September 11, 1970.

August 28, 1970

ANNE M. FITZGERALD
Secretary

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The Board of Directors today declared regular quarterly dividends of \$1.12½ a share on the Preferred Stock—\$4.50 Series and 87½¢ a share on the Preferred Stock—\$3.50 Series, both payable October 24, 1970, to stockholders of record at the close of business on October 9, 1970; also \$1.25 a share on the Common Stock as the third quarterly interim dividend for 1970, payable September 12, 1970, to stockholders of record at the close of business on August 25, 1970.

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The Board of Directors of United States Fidelity and Guaranty Company voted a dividend of fifty-five cents a share, payable October 31, 1970, to stockholders of record September 18, 1970.

WILLIAM R. PHELAN
Vice President-Treasurer
and Secretary

August 26, 1970

READERS SAY

(Continued from page 15)

fits from Social Security, I must work 24 more quarters. In other words, I have forfeited my contributions.

—A. HUGH WHITMORE
Huron, S.D.

SIR: This matter is really a conflict between employees who spend most of their career at one company and employees who divide their career among several companies. . . . Early vesting will automatically result in either increased pension costs or reduced pension benefits.

—LEONARD R. CARGILL JR.
Vice President & Actuary,
Lamar Life Insurance Co.
Jackson, Miss.

SIR: FORBES, back in Nov. 1924, when there were no social security benefits, called attention to the importance of vesting in an article entitled: "Making Old Age Safe for Workers."

—ERNEST C. ROTH
Peru, Ill.

Not So, Sir

SIR: The term "Real McCoy" is not in error (*Readers Say*, Aug. 15). This expression resulted when two boxers both had the same name. One was very good and drew a large crowd. When his was the featured event, he was listed as the "Real McCoy."

—THOMAS C. MULLANE
Walpole, Mass.

Getting Their Money's Worth?

SIR: Re your comment, "Pay a man the least possible and you'll get from him the same" (*Fact & Comment*, Aug. 15). One of the prominent airlines here, which pays its pilots from 30 grand to 40 grand per year for an 18-day month are experiencing a pilot slowdown. Instead of going on a strike, which entails loss of salary, the new concept is to slow down the work pattern. Some people cannot take prosperity and they commit sins of affluence. The old cliché that you "get what you pay for" is only a half truth.

—E. G. BUDDE
Miami, Fla.

Buy, Sell, Hold

If I put in an order: *buy*,
The stock is apt to go sky high,
While if perchance I want to *sell*,
They'll tell me that the stock just fell.
How to make money, that I know,
Sell when it's high, buy when it's low.
The only trouble seems with me
Is knowing when these points will be.
One way that I can get ahead—
Invest for dividends instead,
And not to try to beat the tape,
I will be in much better shape.

—RICHARD C. GLASGOW
Trenton, N.J.

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THOUGHTS... ON THE BUSINESS OF LIFE

One of the chief objects of education should be to widen the windows through which we view the world.
—ARNOLD GLASOW

Most people would succeed in small things if they were not troubled by great ambitions.
—HENRY WADSWORTH LONGFELLOW

Ambition is not a weakness unless it be disproportioned to the capacity. To have more ambition than ability is to be at once weak and unhappy.
—GEORGE HILLARD

A soul exasperated by its ills falls out with everything, with its friends and also with itself.
—JOSEPH ADDISON

Whatsoever is the object of any man's appetite or desire, that is it which he for his part calleth good.
—THOMAS HOBBS

The good things of prosperity are to be wished; but the good things that belong to adversity are to be admired.
—SENECA

Kites rise against, not with the wind. No man has ever worked his passage anywhere in a dead calm.
—JOHN NEAL

No man will be found in whose mind airy notions do not sometimes tyrannize him and thus force him to hope or fear beyond the limits of sober probability.
—SAMUEL JOHNSON

All human things do require to have an ideal in them; to have some soul in them.
—THOMAS CARLYLE

Better build schoolhouses for the boy than cells for the man.
—ELIZA COOK

The disappointment of manhood succeeds to the delusion of youth.
—BENJAMIN DISRAELI

B. C. FORBES

It is when things go hardest, when life becomes most trying, that there is greatest need for having a fixed goal, for having an air castle that the outside world cannot wreck. When few comforts come from without, it is all the more necessary to have a fount to draw from within. And the man or woman who has a star toward which to press cannot be thrown off the course, no matter how the world may try, no matter how far things may seem to be wrong.

You must have long-range goals to keep you from being frustrated by short-range failures.
—CHARLES C. NOBLE

They build too low who build beneath the skies.
—EDWARD YOUNG

The best and noblest lives are those which are set toward high ideals.
—RENÉ ALEMÉRAS

Life is a school. There is something new to learn wherever we may be, wherever we go, wherever we turn.
—WALTER A. WITT

If one advances confidently in the direction of his dreams, and endeavors to live the life which he has imagined, he will meet with a success unexpected in common hours.
—HENRY THOREAU

A healthful hunger for a great idea is the beauty and blessedness of life.
—JEAN INGELOW

An aim in life is the only fortune worth the finding.
—ROBERT LOUIS STEVENSON

The greatest misfortune of all is not to be able to bear misfortune. —BIAS

The Indian summer of life should be a little sunny and sad, like the season, and infinite in wealth and depth of tone—but never hustled.
—HENRY BROOKS ADAMS

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A Text...

Sent in by R. Miller, Muskegon, Mich. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

He that refuseth instruction despiseth his own soul: but he that heareth reproof getteth understanding.
—PROVERBS 15:32

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PHOTO AND ART CREDITS: Bettmann Archive, page 7; Eve Arnold-Magnum, page 15; United Press International, pages 17, 42; Steve Tervinsky, page 24; Manchete from Pictorial Parade, page 26 top; Authenticated News, pages 26 bottom, 27 bottom; Robert J. Smith-Black Star, page 27 left; Arthur Shay, page 34; St. George Tucker Ranson, pages 36, 63; Los Angeles Times, page 48; Herb McLaughlin, pages 50, 51; Culver Pictures, page 55; Wide World Photos, page 62; Cornell Capa-Magnum, page 74; Charts by Pete Di George.

COVER PHOTO: Steve Tervinsky

FORBES is published twice monthly by Forbes, Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office, New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.



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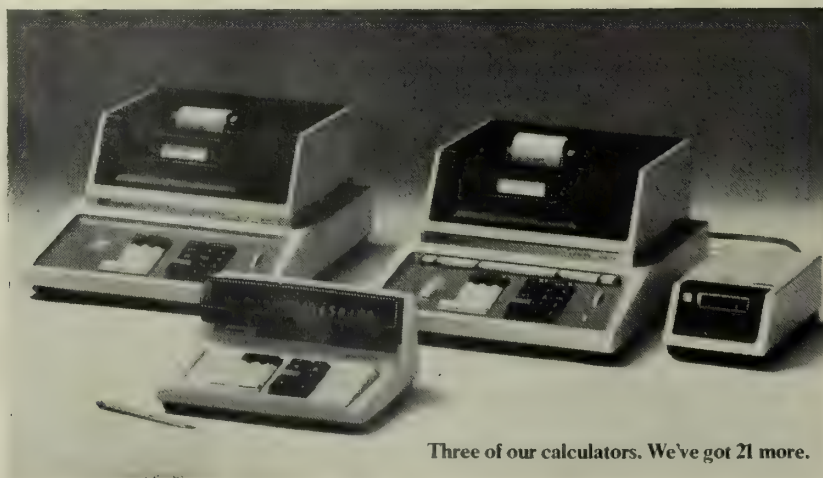
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Side Lines

"Keep After Us"

FORBES Staff Writer Joseph Asher was interviewing a partner in a well-known public accounting firm for the story that appears on page 56 of this issue. It was very clear to the accountant that the FORBES article was going to be critical of generally accepted accounting principles. As the interview drew to a close, the CPA surprised Asher by saying: "You guys are doing a good job raising these questions. The accounting profession needs to have them raised." In short, "Keep after us."

It's not every day that we get praise from people we criticize, and we appreciate it. Not all the accountants we talked to in our research for these articles were so cordial: One of them told us, in effect, "I am all for freedom of the press, but be careful what you print about us." But this was rare: We found that most accountants are deeply disturbed about inadequate and misleading financial reporting.

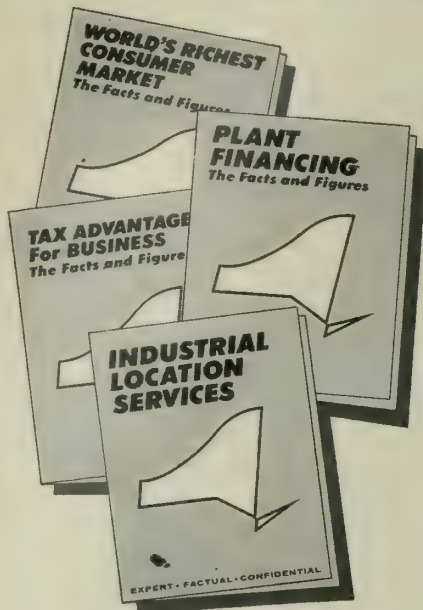
Two stories in this issue bear on the problem: "Words, Words, Words" (p. 54) and "One Hand Giveth. . ." (p. 56). FORBES first raised some of the questions over three years ago (May 15, 1967) in a cover story entitled "What Are Earnings? The Growing Credibility Gap" at a time when most people still took financial statements at absolute face value. The problem, as we see it, arises from this: Balance sheets and P&L statements are efforts to reduce extremely complex business transactions to a very simple set of figures. Inevitably this creates opportunities for people who want to mislead the public. And it makes things difficult for even the most scrupulous of managements. The accountants are often in the middle. They don't like it. They feel they're getting blamed unjustly. They feel the fault lies not so much with them as with the generally accepted accounting rules under which they operate—and with managements that have a confusingly wide amount of latitude. Too much latitude, most of us feel.

We at FORBES don't claim to know the answers, but we'll keep asking the questions. We'll do so, both for the good of the accounting profession and for the benefit of businessmen who need to be reminded that certified financial statements are not quite the Gospel that many people take them for.

Late last year we informed the Nestlé company that we would like to do an article on their worldwide activities. Somewhat stuffily, the company informed us that they would not cooperate. We thanked them and went ahead anyway. We sent a reporter to Europe where he spent weeks talking with Nestlé competitors, customers, former executives. Other FORBES staffers in London and New York contributed additional reporting. The story begins on page 24 of this issue, a tale of a little-known and powerful corporate giant. It is not easy to do a fair and balanced story when the company will scarcely speak with us, but we think we have done an honest job. Involved here is an old FORBES principle: If we think our readers would profit from information, we go get it—whether the subjects like it or not. ■



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Trends & Tangents

FOREIGN

Israeli Invasion?

Like the Japanese, the Israelis too are invading high-technology fields once monopolized by the U.S. and Western Europe. Executives of Tel Aviv's Israel Aircraft Industries are busy setting up a worldwide sales and service network for two brand new craft: a ten-passenger business jet and a flexible short-takeoff-and-landing craft (20 passengers or two tons of cargo). Deliveries will not start until next year, but meantime the Israelis are selling U.S.-made Aero Commanders, bought when North American Rockwell sold the line in 1967. Israel Aircraft started in 1953 servicing the Israeli air force—it still has the contract—and now builds an Israeli-designed sea-to-sea missile and subcontracts for a French plane maker. Its sales came to \$120 million last year, employment 14,000. Now government-owned, the company expects to go public (in the U.S.) within a few years.

BUSINESS

Worry Time

As winter nears, the snowmobile industry is moving to forestall further restrictive laws that could slow its recent fantastic growth. Environmental worries have pressured the industry into studies of what one million machines will do to the balance of nature in heavily snowmobile areas. For example, Arctic Enterprises of Thief River Falls, Minn., maker of Arctic Cat snowmobiles, has announced a grant to the University of Minnesota to study just what happens to plant and animal life when snowmobiles disturb an area's snow cover.

The First May Be Last

On June 30 Anaconda Co. received the first installment of the \$178 million the Chilean government owes it for a majority interest in Anaconda's two big Chilean mining properties. Of the initial \$12 million cash payment, about half was principal, the rest interest; the remaining \$170 million is scheduled to come in over the next 12

years, with the next payment due at year end. Anaconda will hang on to the remaining notes, but Chile's new leftist government may repudiate the basic agreement.

Guiding Light

An experimental laser cane, under test at the University of Cincinnati, shows promise of providing a kind of second sight for the blind by enabling them to detect obstacles ahead of, above and below their paths. Low-powered beams of infrared coherent light from three lasers below the cane's handle reflect off objects and trigger a sensory stimulator. This creates a poking sensation in the user's hand if the hazard is ahead, a sound if it is above or below his path.

The Rustler Rides Again

The Wild West may have died, but in the Plains states cattle rustling still thrives. The Iowa State Department of Agriculture estimates that losses in that state alone amount to from \$3 million to \$4 million annually. With fast trucks, radios tuned to police networks and miles of farm-to-market roads connected to interstate highways, the new rustlers can hit and escape before the theft is even reported. ■

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READERS SAY

An Objection from S&P

SIR: I strongly object to a comment made about Standard & Poor's [and Moody's] in the Sept. 1 issue of FORBES. "To this both services answer that there are literally thousands of bond issues to rate and that a service that brings in only peanuts in relation to the billions it rates cannot be perfect." The sentence is not only erroneous, but it was never stated by us to you or to anyone.

—BRENTON W. HARRIES
Vice President,
Standard & Poor's Corp.
New York, N.Y.

This sentence was FORBES' own conclusion. Neither S&P nor Moody's made such a statement and FORBES regrets the implication that they did—ED.

Midiocrity

SIR: After reading your comment on the midi (FORBES, Sept. 15), I would like to offer my own comments, pro and con, on the subject.

The objection to the midi length can be historically related to the controversy that raged with the advent of the mini-skirt. If I may refresh your memory: Girl: I'd never wear one of those disgusting things. Columnist: Let's face it gals, those chubby, knock-knees just don't look too alluring beneath two inches of skirt. Employer: Isn't that skirt a little short for the office, Miss Jones? You folks are not against the midi, you're just against change, especially in women—and believe me—women are changing.

However—the American woman is being bullied into midis. The Uptown Crowd is doing its darndest to bring us to "midiocrity."

Women, don't scare now. By investing the cost of that cop-out pants suit or mid-knee length, you can have a good second-hand sewing machine. Sewing isn't hard or very time consuming, and by designing your own, you not only become free to wear what you will (at half the price), you give a black eye to the industry that tries to get rich by offering inferior goods for exorbitant prices.

—CATHY STERNBERG
New York, N.Y.

SIR: Rudi Gernreich predicts unisex-oriented style for fashion. I predict unisex-oriented reading for FORBES. Thanks for the cover story.

—BERNITA B. RUBINOFF
Pittsburgh, Pa.

Shy?

SIR: In the "Side Lines" column of your Aug. 1 issue, you mentioned that Mr. C.Y. Tung's picture cannot be obtained without his personal "ok." Such careful modesty is not true only to Mr. Tung, but generally true with all Orientals, who by training shy from snatch-

(Continued on page 75)

What's Chromalloy American doing in Cableless CATV?

Plenty! Recently the FCC authorized as a broadcast service the cableless Quasi-Laser Airlink System for CATV developed by Chromalloy and Laser Link Corporation.

This will provide flawless TV reception at a small monthly cost and hasten the spread of CATV to millions of Americans. The Airlink system is a technological breakthrough which permits the introduction of CATV in many urban areas by eliminating costly underground cabling. Airlinking will also enable existing CATV systems operating in suburban and rural communities to provide service—heretofore unfeasible economically—to small towns and isolated areas.



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But rest assured. All else about your gin will be unchanged. The Dominican Friar on the label. Our refectory, where the Pilgrims met before boarding the Mayflower.

And our prized botanicals, blended only by our Chief Stillman.

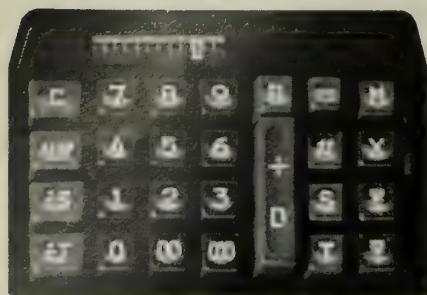
Last, our price will remain mildly extravagant, providing some protection for Plymouth devotees. Everyone may be watching. But, at our price, they won't all be drinking.



Coates & Co. (PLYMOUTH) Ltd. 100% Grain Neutral Spirits, Schenley Imports Co. N.Y., N.Y.

THE KNACK DISSECTED:

or how to make the hand quicker than the eye.



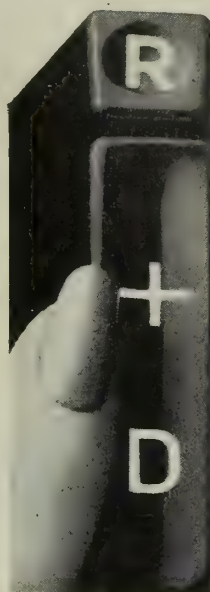
The Hand-Span Keyboard teaches the hand the knack of adding, subtracting, multiplying and dividing—by touch. It's sized and organized so fingers can find all keys for themselves. Just $5\frac{1}{4} \times 3$ inches, it puts every key where a working finger can reach it, while keeping the thumb at rest as anchor and guide.

The Finger-Seater

keys further the knack. They're scooped and lipped just enough to seat the finger securely. And, because they're so big, on such a small keyboard, there are no slip-into spaces left between them.



The Home Key has a bump in its middle to keep your hand on the keyboard, and your eyes off. If you're interrupted, this bump will touch-tell your middle finger when it's back in the right starting place.



The R Key is raised so you can press it and the Add Bar together. Do this when you want to add a number over and over without indexing it more than once.

(For repeat subtraction, press R and minus keys.)

The Add Bar is raised, too, to compensate for the little finger's shortness.

The Instant Corrector cancels errors by subtracting numbers you print by mistake.



The Memory Key prevents errors by storing a number until you need it again. Suppose, for example, you press it right after printing a total.

When you want that total once more, for grand totaling, you simply press the Add Bar (or minus key, or X key) and the machine will give it correctly back. Or, if printing a constant that you'll want back more than once, follow the same procedure, but, after pressing the memory key, lock the constant latch.



The Multiple Ciphers. When indexing a number, what numeral do you most often repeat? Of course, the zero. We've given you a double zero for your hundreds, and a triple for your thousands, as well as the usual one. These multiple zeros do more than save time. By preventing needless repetition, they also prevent mistakes. Anything else we can tell you about this keyboard? Yes, two things.

Because it's so small, the whole machine is small, too. In fact, at 10×12 inches and 20 pounds, it's the smallest, lightest printing calculator in its class.

And, because it's so knack-inducing, we made sure it would stand up to knocks. (Nothing makes customers angrier than a habit-forming machine on the blink.) Its main-shaft is case-hardened steel. And that rides on life-time bearings. And every part is individually tested. And so is every assembled machine. And—although our Swiss engineers tell us these machines are virtually impossible to break—the parts are all modular. And every dealer has parts. (So if you should ever break the unbreakable, it can be changed almost light-bulb fast.) For the name of your nearest dealer, write to the address below.

If you only want to buy a calculator once, buy a Hermes.

HERMES

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Other products: Bolex movie equipment,
Hasselblad cameras and accessories.



The Knack put-together: The Hermes 167 touch calculating machine.

Fact and Comment

THERE OUGHTTA BE A LAW

How many times at one time or another have you and I said about something or other, "The Government ought to do this," or "The Government ought to do that"? It surprises me, on reflection, the several occasions on which *FORBES* has urged that the Federal Government exercise a new power or assume a new responsibility—ranging from ecology matters of late to matters of military and foreign affairs and transportation and housing and ... and ... and ...

While sometimes there is no alternative, it is well to remember who "the Government" is. "The Government" isn't a man or a handful of people seeing that the new responsibility gets done as intended. "The Government" is lots of people, hundreds of thousands of them. They are protected from losing their jobs for political reasons, so that only a colossal misstep such as the assumption of responsibility can delay the slow but certain climb up the civil service ladder. Getting things done is of far less importance than remaining blameless should any action cause a reaction.

The whole thing was beautifully put by Gilbert Fitzhugh, head man of Metropolitan Life Insurance Co., in his Nixon-requested analysis of the Pentagon:

"Everybody is somewhat responsible for everything, and nobody is completely responsible for anything. So there's no way of assigning authority, responsibility and accountability. There is nobody you can point your finger to if anything goes wrong, and there is nobody you can pin a medal on if it

goes right, because everything is everybody's business, and, as you know, what is everybody's business is nobody's business.

"They spend their time coordinating with each other and shuffling paper back and forth, and that's what causes all the red tape and big staffs in the department. Nobody can do anything without checking with seven other people."

Every President in recent decades has expressed frustration, futility feeling because, between the making of a decision or the issuing of an order and the fulfilment of it or the execution of it, there is sometimes a time lag extending through a four-year term. Invariably Presidents put someone or many in charge of seeing that somewhere along the endless chain of command the Presidential command doesn't totally disappear in a topless pile of paper.

Pundits often poked fun at President Johnson's tendency to grab the phone and personally issue an order or a request to someone 25 layers below the top. I guess though that in these instances Mr. Johnson's long years of experience in government taught him where the inaction begins to set in.

If Presidents have such difficulty in moving the federal bureaucracy, what chance is there for us mere citizens?

It's a point to keep in mind the next time we start to say, "Let's have the Government do it." That's often a way, it would seem, of being sure that whatever it is that should be done isn't.

REMEMBER, IT HASN'T GONE AWAY

That is, the 4,500-mile bitterly disputed border between Russia and China.

Their vituperative polemics over differing interpretations of their Red idiotology is teapot tempest stuff next to the founded fears and thousands of years of huge land

grabs and decades of bloody warring between the two.

When we are eye-balling with Russia in the Middle East or Indochina or on the seas or in space, we must remember their growing tension-increasing absorption with China, a border neighbor with three times Russia's population.

EVEN HE'S ENTITLED

The hate-filled demented of Left and Right always scream slogans about their freedom and their Constitutional rights as they seek by riot and bloodshed and dynamite to obliterate the freedoms and rights and lives of those who differ.

It sometimes appalls me, though, how so many non-extremists who feel strongly that the essence of freedom is the untrammelled right to write and to speak freely, get so sore when Mr. Nixon indulges in those freedoms.

Take all that furor over his Manson remark. The outcry over his unlaywerlike comment on guilt completely buried the extremely important and most valued point he was making, namely, that freedom depends on respect for right and law and orderly judicial procedure and that making heroes of those who make mock of these freedoms is wrong and dangerous to a free society.

Then take all that uproar by Democratic congressmen over the President's use of TV to report his views and the reasons for his actions to the country. The demand for equal time to reply every time the President gives an accounting to the nation is as absurd as would be the attempt to fairly pick the Opposition Repliers.

We should all hope that the President doesn't cease to speak with unrehearsed spontaneity and candor just because, in the course of saying much about countless important things, he occasionally says something he shouldn't have said. We should all also hope he doesn't stop talking directly to the American people via TV when he has something he thinks needs to be said.

The Constitution guarantees the right of free speech to all Americans.

Even the President.

TRUMAN ON TARGET AGAIN

In a delightful, perceptive, poignant piece about Harry Truman at home in Independence, Merle Miller writing

in *Holiday* tells of the days when Truman would talk informally to groups touring the Truman Library:

A question period always followed the talk. One day the last question came from an anxious small boy with red hair whose ears had grown up, but not his face.

"Mr. President," he said, and his future and the world's depended on the reply, "was you popular when you was a boy?"

The President looked at the boy over the glasses

that always made him look like an irritated owl. "Why, no," he said, "I was never popular. The popular boys were the ones who were good at games and had big, tight fists. I was never like that. Without my glasses I was blind as a bat, and to tell the truth, I was kind of a sissy. If there was any danger of getting into a fight, I always ran. I guess that's why I'm here today."

THERE'S GOT TO BE A BETTER WAY

According to testimony by Representative Richard L. Ottinger (Dem., N.Y.) before a Congressional subcommittee, 210 areas in our coastal waters are now being used, under permits granted by the Army, to dump sewage, industrial wastes and assorted acids.

There's got to be a better way. Soon.

* * *

A friend returning from Scotland reports that the fabled Loch Ness monster has really and finally died.

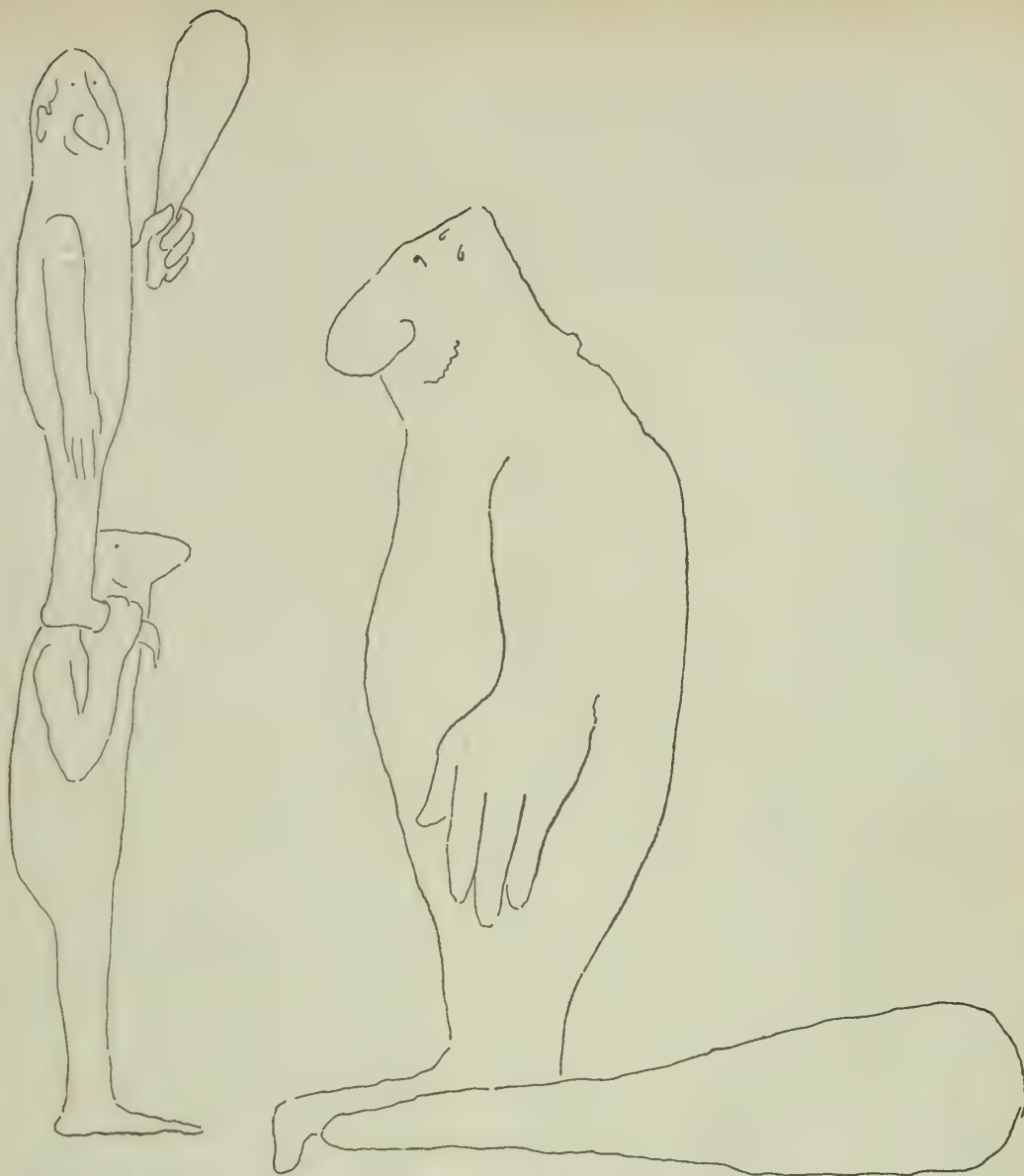
From pollution.

SENSIBLE PA

The Great Impressionist Pissarro gave this advice to his sons, who had begun to draw and to paint: "Scorn my judgment. I have such a longing for you all to be great that I cannot hide my opinions from you. Accept only those that are in accord with your sentiments and

mode of understanding. Although we have substantially the same ideas, these are modified in you by youth and a milieu strange to me; and I am thankful for that; what I fear most is for you to resemble me too much. Be bold, then, and to work! . . ."

—MALCOLM S. FORBES,
Editor-in-Chief



In the last few months, we've discovered that working together works.

Once upon a time there were two paper companies. Great Northern and Nekoosa Edwards.

Then we decided to get together.

We knew that together we'd be a lot stronger. A lot better equipped to compete against the giants of our industry.

And we're happy to report that being together is working.

Now as Great Northern Nekoosa, we're a broader-based company.

We're not only the country's

leading independent producer of newsprint and containerboard.

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We're in more markets. If one of them is down, we have others to lift us up.

Our eight mills are now located in five states: Maine, New York, Georgia, Arkansas and Wisconsin.

We're even starting to cash in on each other's talents. Our research people are getting together.

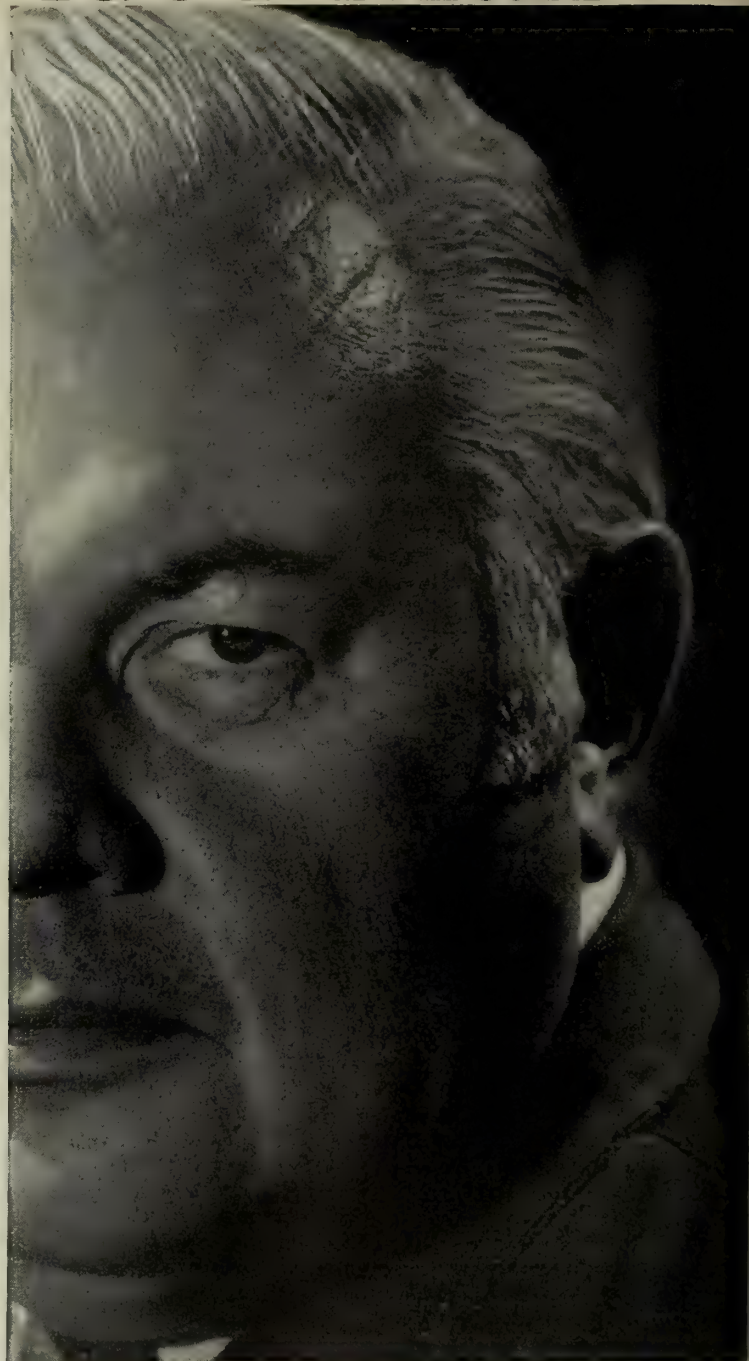
So are our marketing and production people.

The more we work together, the smaller the giants seem to become.

If you'd like to find out more about us, write to Peter Paine, Chairman of the Board, Great Northern Nekoosa, 522 Fifth Avenue, New York, New York 10036.

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or
a time to leap?

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FORBES

WARNING

These People Can Be Dangerous

THE DAY may not be terribly distant when U.S. business will be paying as much to its pensioners as to its stockholders. By then, the pension funds may well control much of U.S. industry as well. Through no fault of their own, senior citizens, sunning themselves in Florida or relaxing in rocking chairs, may force some major U.S. corporations to the wall.

These statements are not exaggerations. They are based on simple projections of current trends. A decade ago, business was putting about \$3 billion a year into private pension funds. Last year the sum was \$10 billion; it is estimated that by 1980 the figure could reach \$25 billion. At \$25 billion, pension costs would equal the amount now being paid as dividends to stockholders.

Already private pension funds have assets of \$125 billion, over half of it in common stock; by 1980 their assets could easily reach \$240 billion. To put this latter figure in perspective, consider this: The recent total value of all stocks listed on the New York Stock Exchange was just \$555.5 billion.

How To Get into Trouble

Gradually, businessmen are beginning to come to grips with a terrible possibility. It is that private pension plans could turn into a monster that could swallow their creators.

It is not merely their sheer size and demands that make private pension

funds potentially dangerous. Until only a few years ago pension fund managers and actuaries made very conservative assumptions, which they were loath to change without years of evidence, about the number of beneficiaries who would draw pensions, how long they would draw them and how much their investments would be earning to support the payout. But in the mid-Sixties, according to Dr. Julian Gumperz of BEA Associates, an authority on pension investment management, "the concept that a company's pension fund was a profit center which should be managed to reduce costs came to the fore." Put bluntly, many corporations began to speculate with pension fund money as a way of cutting pension costs and increasing profits.

For several years the new approach seemed eminently justified. Capital gains on equities were easy to make in the roaring bull market of the late Sixties. Many a pension management seemed to be playing the performance game successfully. At the same time, interest rates were rising sharply, making their fixed-income investments more productive. These factors enabled the company to press the actuaries to raise their assumptions about what pension fund investments would earn. In short, they began putting less money in than they might have. Management assumed profits and interest would make up the difference.

Interest rates are still high. But the stock market collapse has wiped out much of the gains painfully accumulated over many years, and also dampened hope of future corporate profits to ease the burden.

How serious has this been for private pension funds? Their managers seldom give out data on their results. But one manager, Ashby Bladen of American Standard, says: "I've seen a number of pension plans that were off by more than 25%, and some were off by as much as 45% during the bear market. Many were overreaching for performance and got clobbered."

Great Expectations

The shattering of "performance" expectations couldn't have come at a worse time. Today many corporations may have to lower their expectations of what their assets can earn over the long run. Yet they are faced with a clamor for higher pensions. Typical in a way is the demand the United Auto Workers are making on the automobile companies: retirement in 30 years regardless of age at \$500 monthly. Granting of this demand could prove a crushing burden, for it would lead to full retirement of thousands of employees still in their late 40s and early 50s. Such people might be drawing pensions for 25 or 30 years, far longer than the 12 years today's average pensioner lives after retirement at 65.

"Thirty and out" may not be

achieved by the UAW this year, but you can bet it will be back again.

The UAW aside, recent pension demands have been tremendous. Earlier this year, the General Electric and Westinghouse settlements with the electrical workers provided a 15% hike over 40 months—including a hefty pension increase.

How hefty became apparent only when Westinghouse had to reveal some details in an August 1970 prospectus. The higher benefits lifted pension expenses from \$20 million to \$34 million in a single year. That means that Westinghouse is paying nearly 1 cent on every sales dollar as pensions. The after-tax cost is roughly 45 cents a share. In addition, Westinghouse's unfunded past service liability* increased from \$224 million to \$350 million, because the new benefits are retroactive and must be backed up with higher earning power. Though it doesn't show as such on the balance sheet, Westinghouse thus has a buried liability of \$126 million—\$3-plus a share pretax. This in spite of the fact that Westinghouse has raised its assumed rate of return from 3.5% to 6%, enabling it to save some \$90 million out of pocket over the last 3½ years.

GE, whose plan is much older and larger than Westinghouse's (\$1.8 billion vs. \$700 million) will also experience a large increase in pension costs from the \$53 million of last year. GE has a handy buffer in some \$83 million in excess dividend and investment income, plus in excess of \$325 million in unrealized capital gains that it is steadily tapping. Last year it took credit for \$42 million in unrealized capital gains vs. only \$20 million the year before. This enabled it to get by with only a \$2.4-million increase in its contributions. But GE may not always have these unrealized capital gains.

Everybody Does It

There is nothing unusual about Westinghouse increasing its earnings assumption or GE taking unrealized capital gains in its pension calculations. Most big private pension funds have taken similar routes in the last few years to lessen the bite on corporate income: Seven of the nine largest pension funds have increased their actuarial earnings assumptions, most of them in 1969 and 1970. Even conservative du Pont decided earlier this year to alter its interest rate assumptions, which will enable it to save millions in pretax earnings. Only American Telephone & Telegraph and International Business Machines are

still standing pat, at 3½% and 4%.

Those companies that have gone from 3% to 4% or 4.5% may still be on the conservative side, particularly if their pension fund liabilities are fully funded and no sharp benefit increases loom on the horizon. Unfortunately, that is not always the case.

For example, last year U.S. Steel's \$2-billion pension fund changed its pension calculations so that it contributed \$72.6 million to the fund

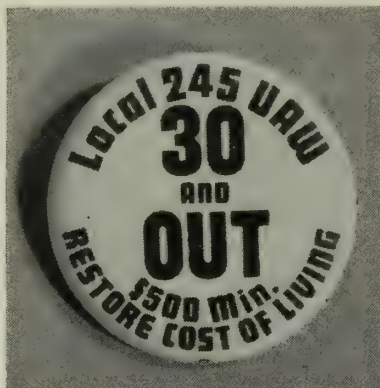
rather than some \$95 million, and in the process raised net income by \$14 million. But Big Steel still has a \$1.3-billion unfunded past-service liability that must, because of the age and length of service of its work force, be funded over the next 15 years. Where will the money come from? Ross Albright, vice president of administration, hopes it too can come from appreciation in its \$930-million (cost) common stock portfolio, which today, despite the market decline, is considerably in excess of cost. And if that should be inadequate? Says Albright, "Let's hope not, but if we don't have it in appreciation we will have to take it out of pocket."

One thing is sure, that big and well-known companies can get into pension hot water too. Western Union's \$330-million past-service liability is equal to over 42% of total assets, while New York's Consolidated Edison, on top of its other troubles, is \$170 million behind in serving its past pension fund liabilities. Or take the case of Studebaker, which in 1963 had to quit the auto business or go under. When it chose the former, many of the 11,000 employees it laid off were eligible for pensions, but many did not get them in full, some not at all, because the company had grossly underfunded its pension liabilities. It is worth noting that Chrysler and American Motors today are in a situation not totally unlike that of Studebaker a decade back, in that they have had falling market shares and sharply declining earnings—and mounting pension costs.

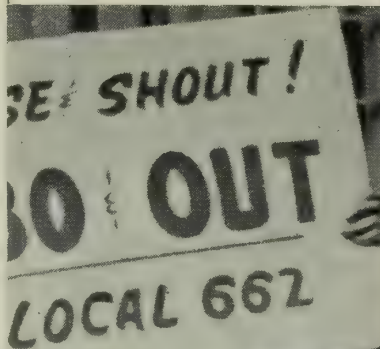
Many of Chrysler's 140,000 U.S. workers, for example, are entitled to future pensions, and 31,000 retired employees actually received about \$66 million last year. The company had to pay in \$114 million last year—even though it cut its burden \$5 million by assuming higher earnings. Yet now it faces a UAW demand for a staggering (23%) rise in pension benefits.

Another company that could be badly burdened with pension costs is International Harvester, though it has much more ample reserves than the two carmakers. IH's pension fund is currently carrying 18,000 retired workers, with another 75,000 eligible in the U.S. alone. Last year its pension contribution was \$57 million, almost equal to its 1969 earnings of \$63 million. Harvester increased its pension fund earnings assumption from 4.5% to 6%, which will save it \$15 million in contributions in 1970. "It may prove difficult to earn 6% or better consistently," says J.M. Landon of IH's pension fund. "In that case we would have to put up the money out of earnings."

By no means all of the big pension funds are playing the postponement



One of the UAW's costliest demands, on which they and the automakers are farthest apart, is for vastly increased pensions. Part of what the UAW wants could cost the companies hundreds of millions more for years to come.



*These liabilities arise either because they were accrued prior to the inception date of the plan or because increased or new benefits granted today affect benefits measured by employment for prior periods as well.

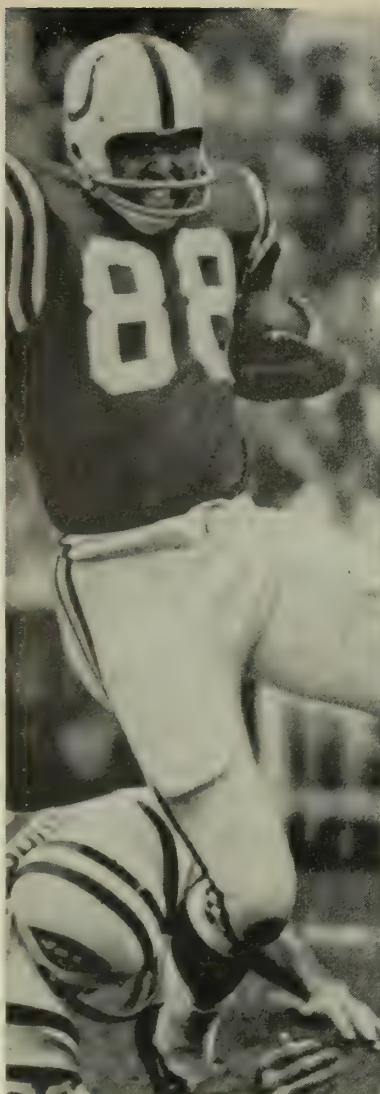
game. AT&T's enormous (\$7-billion) pension system, to which the company made a contribution of \$560 million last year (a figure equal to a fourth of net income), is almost entirely funded, and it assumes an ultraconservative 3.5% earnings rate. Unfortunately, it is having trouble earning even that. Last year, with 40% of its assets in equities, it earned barely 3%.

A few companies have suddenly begun to find themselves overfunded. The big aerospace companies lavishly funded their pensions during the Fifties and mid-Sixties, but for two years they have been laying off thousands of workers, many of whom had no vested pension rights. Now that their pension reserves are becoming more than adequate for their shrunken work force, the companies are reducing their pension contributions, as did North American Rockwell and Boeing last year, or they may consider, as in the case of Lockheed, doing so next year—and thereby cushioning their reported earnings decline.

New legislation, currently being considered by the Senate, could remove this cushion if passed. It could require companies to give their employees vested rights to their pension after perhaps ten years of employment. Today many companies have no vesting provisions before retirement, and others vest only after 15 to 20 years' employment, so that contributions made for employees who leave or are fired before that time serve to reduce the cost of pensions for those workers who remain. Another expensive possibility would be portability rights, perhaps within an industry, so that an employee switching from, say, Ford to General Motors would carry his pension with him without a waiting or vesting period.

Literally hundreds of major corporations have, like Westinghouse, substantial unfunded pension liabilities. There is some talk these days in Washington of a law requiring such liabilities to be fully funded. Such a law could cost companies literally billions of dollars out of current earnings.

The unions are also beginning to worry about whether the pension ben-



Over 33 million workers in private industry are covered by pensions—even football players like tight end John Mackey of the Baltimore Colts, who led the players to the brink of an all-out strike over the issue. But negotiating a pension with a company isn't the same as getting it, as workers at Studebaker learned. After the company shut its plant (below) just before Christmas in 1963, the pension fund reserves proved grossly inadequate to live up to the contract.

efits will actually be paid. They are beginning to press for insurance to cover the pension obligations of a company that goes broke. And they are lobbying to amend the bankruptcy laws so that pension obligations will be treated like wages in bankruptcy, thus putting them ahead of other creditors and stockholders.

Another possibility: There is revived talk about consolidating private pension plans with the federal system. Instead of a pension, the company would pay a much higher social security tax. The advantage to an employee would be certainty; he would have his rights vested much more quickly, and he could take that pension with him wherever he worked. Finally he would be more certain the pension would be there when he retires. Such a move would deprive corporations of all flexibility in handling pension plans and would, in effect, add tremendously to their tax and social security burdens.

Does all this sound alarmist? Anyone who thinks so might reflect on what happened to International Harvester's pension system more than 35 years ago. IH's pension plan dated back to the early 1900s, but it began to be funded only in the 1920s. "In the Thirties," says IH pension administrator Landon, "the fund had an interest rate [earnings] requirement of 3.5%, but for a good number of years it was able to earn only 3% or less. The company had to make it up out of pocket in addition to regular contributions. It wasn't easy in times like those.

"It was a new management," Landon goes on, "that had to pay for the old one."

It couldn't happen again, you say? Well, they said there couldn't be another stock market crash, but we had one this year. They said big companies couldn't go broke, but there was the Penn Central. They said the conglomerates were here to stay, but look what happened to Jimmy Ling.

Don't rule out pensions as a major source of trouble in the years ahead. And above all, don't forget to look for the footnotes on pension payments and liabilities when you read company annual reports. ■



Blood, Sweat... but No Miracles

Otis Elevator's Ralph Weller is an outspoken man. He frankly describes his company's problems. And he promises no miracles in dealing with them.

IT HAS SADLY DAWNED on Americans that many of yesteryear's miraculous corporate turnarounds, many of the synergistic mergers, were products of either imaginative bookkeeping or imaginative public relations. In the real world, quick turnarounds and problems yielding to fast solutions are rare.

Talk with the smart new management team now heading Otis Elevator and you'll get a sense of how ingrown and stubborn can be the problems that hamper profitability in an established old company. Otis has its troubles. Its sales have nearly trebled since 1960 (to a possible \$670 million or so this year) but per-share profits are about where they were in 1960. Ralph E. Weller, president, and E.D. (Ed) Hull, senior vice president, are both Harvard MBAs and both are in their 40s. Bright. Smart. Alert. They became the head men at Otis in 1968.

They have been doing all the right things. Overhauling the cost-estimating process and preaching the message that profits are more important than sales. Spending heavily on new production facilities. Going to the money market to borrow modernization money—for a company that has, traditionally, been almost debt-free.

Are Weller and Hull promising a fast turnaround? They are not.

Says Ralph Weller: "We are predicting pretty much of a plateau in business for the next three or four years. This year, of course, our sales will be down from last year for many reasons, the fallback in New York being the biggest. I think the next few years are going to be *difficult* for Otis."

Doesn't Otis have record uncompleted contracts of \$873 million? "Look, there's no magic formula about backlogs and how much we're going

to make on it. Sure, it looks like we have a nice two- or three-year cycle of sales to billing to profit, but it's not that simple."

Why not? "Because we were selling jobs at a loss, hoping to make money on the installation," Weller replies. "We weren't estimating our costs properly. In the contracting business, people go broke because they don't estimate properly. They get too involved in 'must' jobs. There's no such thing. We lost money on new elevator installations in 1967 because we were paying for the sins of selling at a loss in 1965. And there's still some of that in the backlog. The poor performance of certain European countries this year is related exactly to this—not estimating costs properly."

And that long-awaited construction boom? "Still around the corner, isn't it? Look at hospitals. It costs them in some cases as much as \$10 to \$20 a bed per *day* to build them because of the cost of money."

If interest rates come back down soon? "Well, if a recession is short we tend to ride over it," Weller explains. "But if it's long, like this one, we

When In Japan...

MANY American businessmen look upon Japanese competition with respect verging in many cases on fear. And no wonder. Japanese imports are everywhere, from the great steel girders of New York's rising World Trade Center to the frisky little automobiles darting through the streets of American cities. More and more U.S. manufacturers are fleeing to Washington for protection against this Eastern invasion.

Not Otis Elevator, which introduced elevators to Japan in 1904. "They're not making much prog-

ress here," says Otis chairman Ralph Weller, commenting on Japanese competitors like Hitachi. "Hitachi is a very strong elevator company in the oriental market. But they've been here a while and they haven't gotten very far. Why? It takes so bloody many people per dollar of sales and a long, long time to build up an organization."

How about the future? Japanese giants like Mitsubishi and Hitachi are used to thinking long-term. "I can't see it," Weller says. "There's enormous pent-up demand for

high-rise public housing in Japan. Our projections for Japanese escalator demand a few years out are *four* times the size of the annual market in the U.S. Now they'll be too busy doing *that*, to worry too much about building up an organization in the U.S. I have a new Japanese plant coming on stream shortly. If Hitachi and Mitsubishi want to start playing games in this country, well then I can start sending stuff over to Japan from France, from Germany, from India and from South America."

Plugging in the Pols

Some old-timers don't like it but a congressional computer could tell every representative what he's really voting on.

IN THESE DAYS of a \$200-billion-plus federal budget, the politicians who make the nation's crucial spending decisions have found a brand-new management tool, the computer—quite a revelation for a body like the Senate, which still makes up its payrolls by hand and pays its employees in cash.

As an initial move, the House Administration Committee awarded a \$450,000 study contract to eight data processing outfits to determine how

much automation Congress needs. But more money is surely on the way. Right now the contract is mainly a matter of prestige, but over five years, a minimum-sized system for Capitol Hill would cost at least \$20 million.

More significant is what EDP might accomplish. A congressional computer system would give every one of the 535 representatives and senators access to the tons of federal information that now can be tapped easily

only by the most senior committee heads. The controversial concept is being pushed by, of all people, Representative Joe D. Waggoner (Dem. La.) who vows he won't settle just for automating the payroll:

"Consider the information that would be available if we could tap the computer information in the Bureau of the Budget," says the fifth-term legislator. "This is the great lever." The logical outcome of Waggoner's efforts would be a desk-top terminal in every congressman's office where he could dial up any federal information he wanted.

So far, most of the study-contract money has gone to nonprofit Stanford Research Institute. But software com-

tend to pick up later in the recovery."

What about the cost-cutting moves Weller and Hull have instituted? Expect no miracles, Weller says. "We have high labor costs relative to the sales dollar. We're in one of the five or ten worst industries around for that, and I suspect we always will be. That's because in the U.S. we must assemble elevators in somebody else's shaftway because of the unions, whereas the rest of the world permits a degree of prefabrication. OK. But now consider: For approximately the same amount of volume and the same amount of profit, we work with half as many men in the U.S.—13,500 employees as against some 31,500 employees. And our big engineering division monster, which costs us so much money and designs the product for the whole bloody world, is in the U.S. If we were just an American company and you looked at us in terms of employee cost per sales dollar, we'd be twice as efficient. Now, sure. We have fat. But look at it in perspective."

Otis, Weller explains, gave its big Yonkers and Harrison facilities low priority in capital spending in favor of European and foreign plants because prefabrication was only possible overseas because of U.S. union pressure. Then Weller ticks off the record of overseas plant-building over the past ten years: new plants in England, France, Germany, Italy, India, Argentina and Japan; major expansion in France, Canada, Australia, South Africa, Brazil, to say nothing of new factories domestically in Bloomington, Ind., Cucamonga, Calif. and London, Ohio—all at a cost of \$94 million.

Otis is finally getting around to doing something about its aging U.S. plants. "We're looking for a site for a \$30-million plant that will consolidate Yonkers and Harrison. But it won't solve all our problems. What do we



"Erector Sets." U.S. union pressure forces Otis to assemble units piece by piece on site, "like erector sets," say Otis executives.

make at Yonkers? Components. It's not an assembly line. No matter where we're located, the typical order still will be for two elevators and they will have to be assembled on site.

"I concede that the situation at Yonkers is bad from a production point of view, but let's not exaggerate the results."

Escalator clauses that pass rising labor and material costs on to the customer are no easy answer for Otis' profit problems either, as Weller sees it. Why? "Everybody seems to think, 'Why the hell can't Otis have escalator clauses in its construction contracts?' Well, the answer is simple. No one would *buy* on an escalator clause in construction. Construction costs always rise, and then the accountants would take over the business."

Finally, he dismisses the idea of major diversification as an easy solution. "We're not interested in a billion dollars in sales just because it looks good. We don't have the skills. We don't have that much management we can peel off. What we're looking for is *related* product areas but right now, with the money market like it is, we're kind of cooling it."

Otis, he says, learned its lesson with the acquisition of the Baker forklift truck business in the early Fifties. "We really didn't learn that bloody

business until we made up our minds that we were going to have a complete line of products. All the larger companies with a complete line of trucks were able to get the better dealers, and here we were in the red for years with one little product line."

If none of these "obvious" solutions is going to work, does Weller have an answer to the problem of stagnant earnings of Otis Elevator? He does, but it's neither quick nor easy. "I'll tell you what we're doing at Otis," Weller says. "We've been preaching it publicly for two years now and privately for a hell of a lot longer, except no one was listening. The big switch in policy is that now we estimate a job to make money on it. Recognize what your costs are and don't kid yourself about them and *then* make a pricing decision. Cut your prices below costs and all you create is a loss. We don't create elevator demand with low prices. We don't sell elevators until somebody builds a building."

In short, Otis is going to pay more attention to making money than to building market share—which was the company's traditional preoccupation. If Weller and Hull can get Otis off dead center, they are going to deserve a lot of credit. And if they don't, at least optimistic promises aren't going to come back to haunt them. ■

panies like Mitre Corp., Computer Sciences Corp., General Computing Corp. and Scientific Resources Corp. also got small bits. If Waggoner gets more funds for the project after the studies are completed in two months, some 40 other firms are hoping for a chunk. And Congress' information needs are so staggering that computer help is mandatory—if only to keep tabs on the 12,000 pieces of legislation introduced annually.

What most excites congressional computer advocates, however, is the potential effect on the never-ending power struggle between the Executive and Legislative branches. "To a large extent," says Waggoner, "the Legislative branch is spoon-fed by the

Executive branch." Direct access to federal files could overcome Congress' inferiority feelings.

If a congressman wanted to know what had been spent on some housing and urban affairs program, for instance, he would simply dial the correct code. Or a future Penn Central-type debacle could be investigated by Congress in light of the insider transactions made by top officers—information the Securities & Exchange Commission plans to program for computer access. These, of course, are only minor examples when compared with the Defense Department and its 3,000 computers and its \$77-billion budget.

With all these possibilities, it is somewhat amazing that Congress isn't

further along computerizing. The main reasons are money and the old saw that information is power. It's not certain that House or Senate leaders—already plagued by young mavericks—would welcome the "great leveler." And in any case the House and the Senate will probably end up with separate systems; though they have similar needs, and the most comprehensive system is usually the best buy.

Fortunately, there are plenty of purely political pluses for plugging the pols into a computer network. Come election time, Congressmen can use them to compile mailing lists, store confidential information, analyze polls. With those incentives, money is miraculously beginning to materialize. ■

The Comeback Champions

Since its May low the Dow Jones Industrial Average is up some 20%, but many Big Board stocks have rebounded 50% or more. Here are 55 top rebounders, led by the oils, finance and building stocks.

Company	May 26, 1970	Price Recent	Gain From Market Low	Latest Earnings Per Share	Price/Earnings Ratio	Indicated Dividend	Yield	1970 Price Range
Dow Jones Ind. Average	631.36	758.49	20%					
Amerada Hess	20 $\frac{1}{2}$	37 $\frac{1}{4}$	82%	\$2.43	15	\$0.22	0.6%	39 $\frac{1}{8}$ -20
Amfac	23 $\frac{7}{8}$	39 $\frac{1}{2}$	65	2.40	16	0.80	2.0	50 $\frac{7}{8}$ -23 $\frac{1}{2}$
Aztec Oil	9	14	56	0.60	23	stock	—	14 $\frac{7}{8}$ -8 $\frac{1}{8}$
Baker Oil Tools	13 $\frac{1}{8}$	21 $\frac{3}{8}$	63	1.53	14	0.65	3.0	23 $\frac{3}{4}$ -13 $\frac{1}{8}$
Belco Petroleum	10 $\frac{1}{2}$	17 $\frac{7}{8}$	70	2.11	8	0.50	2.8	34 $\frac{3}{8}$ -10 $\frac{1}{4}$
Block, H. R.	37 $\frac{5}{8}$	60 $\frac{3}{8}$	60	1.17	52	0.36	0.6	68 $\frac{1}{2}$ -37 $\frac{1}{8}$
Brunswick	10 $\frac{1}{4}$	16 $\frac{7}{8}$	65	0.86	20	0.10	0.6	18 $\frac{7}{8}$ -9 $\frac{7}{8}$
Cenco Instruments	19 $\frac{1}{4}$	35 $\frac{1}{8}$	82	1.93	18	0.30	0.9	48 $\frac{1}{2}$ -16 $\frac{1}{2}$
Checker Motors	10 $\frac{3}{4}$	27 $\frac{3}{8}$	155	0.26	—	none	—	29 $\frac{1}{2}$ -10 $\frac{5}{8}$
Cosat	26	42 $\frac{7}{8}$	65	1.09	39	none	—	57 $\frac{3}{4}$ -25
Cox Broadcasting	10 $\frac{3}{4}$	17 $\frac{1}{8}$	59	1.22	14	0.30	1.8	24 $\frac{5}{8}$ -10 $\frac{1}{4}$
Eckerd, Jack	16 $\frac{1}{4}$	27	66	1.08	25	0.20	0.7	35-16
E. G. & G.	9	15 $\frac{5}{8}$	71	d0.56	—	0.10	0.7	23 $\frac{1}{4}$ -8 $\frac{3}{4}$
Essex International	18 $\frac{1}{8}$	27 $\frac{3}{4}$	53	2.70	10	1.20	4.3	36 $\frac{3}{4}$ -17
Evans Products	23 $\frac{1}{4}$	38	63	2.08	18	0.60	1.6	42 $\frac{3}{4}$ -23 $\frac{1}{4}$
Fedders	20 $\frac{1}{2}$	32 $\frac{3}{8}$	58	1.55	21	0.40	1.2	33 $\frac{1}{2}$ -20 $\frac{1}{4}$
Fischbach & Moore	17 $\frac{5}{8}$	27 $\frac{3}{4}$	57	2.01	14	0.80	2.9	34 $\frac{7}{8}$ -17 $\frac{1}{2}$
Getty Oil	38 $\frac{1}{4}$	63 $\frac{1}{4}$	65	4.69	13	1.06	1.7	62 $\frac{3}{4}$ -36 $\frac{5}{8}$
Gibraltar Financial	11 $\frac{3}{4}$	21 $\frac{7}{8}$	86	1.99	11	none	—	25 $\frac{1}{4}$ -11 $\frac{5}{8}$
Great Western Financial	12 $\frac{1}{4}$	21 $\frac{5}{8}$	77	1.38	16	none	—	24 $\frac{1}{2}$ -11 $\frac{5}{8}$
Gulf & Western Inds.	9 $\frac{3}{4}$	17 $\frac{3}{8}$	78	2.38	7	0.50	2.9	20 $\frac{3}{4}$ -9 $\frac{1}{2}$
Jonathan Logan	32 $\frac{1}{2}$	51 $\frac{3}{8}$	58	3.81	13	0.80	1.6	57 $\frac{1}{2}$ -32 $\frac{1}{4}$
Kaufman & Broad	23 $\frac{1}{8}$	38 $\frac{3}{8}$	66	0.94	41	0.20	0.5	40 $\frac{1}{4}$ -22 $\frac{3}{4}$
Kerr-McGee	59 $\frac{1}{2}$	96 $\frac{1}{4}$	62	4.46	22	1.50	1.6	98 $\frac{1}{4}$ -59
Leeds & Northrup	15	25 $\frac{1}{4}$	68	1.62	16	0.50	2.0	26-14 $\frac{3}{8}$
Ling-Temco-Vought	8	16 $\frac{5}{8}$	108	d5.35	—	none	—	29 $\frac{1}{8}$ -7 $\frac{1}{8}$
Loew's Theatres	16 $\frac{1}{2}$	29 $\frac{1}{4}$	77	2.55	11	0.13	0.4	40 $\frac{1}{2}$ -16 $\frac{1}{4}$
Lone Star Cement	15	23 $\frac{7}{8}$	59	1.80	13	1.00	4.2	25 $\frac{3}{8}$ -15
Masonite	24 $\frac{7}{8}$	42 $\frac{1}{8}$	69	2.15	20	0.72	1.7	43-24 $\frac{7}{8}$
Maytag	20 $\frac{3}{8}$	31 $\frac{1}{8}$	53	1.67	19	1.10	3.5	31 $\frac{1}{8}$ -20 $\frac{1}{4}$
M.C.A.	12 $\frac{1}{2}$	19 $\frac{5}{8}$	57	0.07	—	0.60	3.1	25 $\frac{3}{4}$ -11 $\frac{3}{8}$
McDermott, J. Ray	15 $\frac{1}{2}$	26 $\frac{5}{8}$	72	2.92	9	1.00	3.8	55-15 $\frac{1}{4}$
M.G.M.	12 $\frac{5}{8}$	21	66	d4.36	—	none	—	29 $\frac{1}{8}$ -12 $\frac{1}{8}$
Metromedia	10 $\frac{5}{8}$	16 $\frac{3}{4}$	58	0.58	29	0.50	3.0	22 $\frac{3}{8}$ -9 $\frac{3}{4}$
M.G.I.C. Investment	33	54 $\frac{5}{8}$	66	1.64	33	0.20	0.4	58 $\frac{1}{2}$ -33
Mohasco Industries	15 $\frac{1}{4}$	24 $\frac{3}{8}$	60	1.49	16	1.10	4.5	30 $\frac{1}{4}$ -13 $\frac{3}{4}$
Murphy Oil	14 $\frac{1}{2}$	26	79	1.20	22	0.60	2.3	28 $\frac{3}{8}$ -13 $\frac{7}{8}$
Natomas	14 $\frac{3}{8}$	58 $\frac{1}{4}$	305	d0.39	—	0.25	0.4	67 $\frac{7}{8}$ -13 $\frac{1}{8}$
No. American Coal	12 $\frac{3}{8}$	18 $\frac{3}{4}$	52	0.66	28	0.60	3.2	22-11
Overnite Transportation	17	28 $\frac{1}{2}$	68	2.47	12	1.00	3.5	29 $\frac{1}{2}$ -16 $\frac{3}{4}$
Pacific Petroleum	15 $\frac{1}{4}$	28 $\frac{7}{8}$	89	0.74	39	0.25	0.9	30-15 $\frac{1}{4}$
Pennwalt	18	26 $\frac{7}{8}$	49	1.49	18	1.20	4.5	36 $\frac{1}{2}$ -17 $\frac{1}{8}$
Pennzoil United	18 $\frac{1}{4}$	28	53	1.93	15	0.80	2.9	36-15 $\frac{5}{8}$
Redman Industries	11 $\frac{3}{4}$	22 $\frac{3}{4}$	94	1.48	15	0.20	0.9	37-10 $\frac{1}{4}$
Santa Fe International	13	28 $\frac{1}{2}$	119	1.88	15	0.30	1.1	32 $\frac{7}{8}$ -12 $\frac{5}{8}$
Skyline Corp.	15 $\frac{7}{8}$	27	70	0.99	27	0.16	0.6	30 $\frac{3}{8}$ -13 $\frac{5}{8}$
Superior Oil	94	153 $\frac{1}{2}$	63	3.53	43	1.40	0.9	151-91
Supermarkets General	16	26	63	1.66	16	0.40	1.5	30-16
Telex Corp.	11 $\frac{3}{4}$	18	53	0.83	22	none	—	25 $\frac{7}{8}$ -9 $\frac{1}{8}$
Texas Eastern Transmission	22 $\frac{1}{2}$	35	56	2.56	14	1.40	4.0	35 $\frac{1}{2}$ -22 $\frac{1}{8}$
Union Oil Calif.	23 $\frac{7}{8}$	35 $\frac{7}{8}$	50	3.46	10	1.60	4.5	39 $\frac{3}{4}$ -23 $\frac{5}{8}$
Wesco Financial	12	21 $\frac{1}{4}$	77	1.84	12	stock	—	28 $\frac{3}{8}$ -12
White Consolidated Inds.	9 $\frac{1}{2}$	14 $\frac{3}{4}$	55	2.69	5	0.40	2.7	22 $\frac{5}{8}$ -8
Williams Brothers	16	27 $\frac{7}{8}$	74	3.28	8	none	—	29 $\frac{7}{8}$ -15 $\frac{1}{2}$
Zale Corp.	20	31 $\frac{1}{4}$	56	1.91	16	0.64	2.0	44 $\frac{5}{8}$ -19 $\frac{5}{8}$

d Deficit.



COMPLAINTS

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Fort Howard Paper

Green Bay, Wisconsin 54305

The Secret Giant

*Nestlé? It's
a little candy company,
isn't it?
That's what
this \$2-billion
food company
would like you
to think.*



IF YOU DON'T WANT to publicize the details of your business Switzerland is a splendid place to incorporate. Nestlé is a name known all over the world, but Nestlé Alimentana S.A. is a Swiss corporation, headquartered in Vevey, near Geneva. The world, therefore, knows almost nothing about Nestlé except that it makes chocolate, baby foods and Nescafé.

There are two widespread impressions about Nestlé, neither of them accurate. The one prevalent in the U.S. is that Nestlé is a nice little candy company with some profitable sidelines. The other, prevalent in Europe, is that it is a powerful and mysterious corporate octopus whose tentacles reach throughout the world.

In fact, Nestlé is neither a mysterious octopus nor a nice little candy company. It is a very big food company with worldwide sales of some \$2 billion, but it is very far from superhuman; it does extremely well in some lines, extremely poorly in others.

Worldwide, Nestlé is No. Three in packaged foods, ranking behind Unilever and Kraftco and a shade ahead of General Foods, but well ahead of H.J. Heinz, Standard Brands, Borden or Campbell Soup. In addition to the well-known Nestlé and Nescafé names, the company is represented on U.S. grocery shelves by such well-known names as Crosse & Blackwell, Maggi and Libby, McNeill & Libby. Last year its sales in the U.S. came to about \$720 million. Nestlé owns some 200 factories in 39 countries. It has close to \$1 billion in capital, most of it equity capital since Nestlé is almost debt-free. Nestlé's operating margin was 5.3%—not as good as General Foods' 7% or Campbell's 5.7%, but better than Hershey's 3.8% and Kraftco's 2.9%.

Nestlé also has 80,000 stockholders. They have little reason to be happy. Nestlé stock has never been back to the highs it reached in 1961 and 1962. Since then it has rarely sold at more than ten times earnings, and in the current bear market it has been selling at seven to eight times earnings, an unprecedented low for a company of Nestlé's character. And the yield at last dividend was 2% and 2.8%, depending on class. Moreover, the bulk of its stockholders have had little opportunity to know much of what was happening. Nestlé's management issues a bare minimum of financial information and flatly refuses to be interviewed by the press. "This," says a Swiss banker, "is just a boring stock."

Why does Nestlé so stubbornly hide its light under a barrel? "This discretion must be strictly observed by a business whose head office is situated in a country which plays only a mod-

est part in the over-all activities of the business." So declared Max Petitpierre, a former Swiss head of state, and, until 1969, chairman of Nestlé. The ancient Swiss penchant for secrecy permeates the company.

The problem, as Nestlé apparently sees it, is that corporate visibility would be bad. Only about 2.5% of its business is done in Switzerland, and elsewhere the consumers tend to think of Nestlé as a local company. Nestlé's management prefers it that way.

Defiantly Swiss

Inside the company, Nestlé makes much of the fact that it is an international company. The present managing director (i.e., chief operating officer) is a Frenchman, Pierre Liotard-Vogt. Head of U.S. operations is C.J. Cogniat, a Swiss. The board of directors includes Reginald Worth, an Englishman. Until last year, Enrico Bigami, an Italian, was one of the two vice chairmen. But control is Swiss. Defiantly so. A decade ago, apparently worried about foreign buying of its stock, management split the stock in two classes. The registered shares, two-thirds of the total outstanding, may be held only by Swiss citizens; these shares have two-thirds of the voting power. The bearer shares, representing one-third of the stock, may be held anywhere, but have only one-third of the votes. Thus Swiss control is assured. But the Swiss stockholders suffer: With a limited market, the Swiss shares recently sold for 36% less than the foreign shares, though each got the same dividend.

The love of secrecy, this unwillingness to dilute the Swiss control, also, apparently, accounts for Nestlé's reluctance to borrow for its expansion programs. As a result, dividend payout has been limited to around 40% of earnings, which is low for a major food company.

Until last year, Nestlé did not even issue a consolidated earnings report. Finally, after complaints from stockholders, it published the consolidated earnings for 1967 through 1969. This, Petitpierre grandly explained, was done as a "lasting solution to the information problem." This is not the entire story, however. By publishing consolidated figures, Nestlé may well have made its long-range earnings gains look better than they had previously seemed.

Nestlé does not supply annual reports—such as they are—to people who do not live in a country where the stock is traded, which means people who do not live in Switzerland or France. That's of little import, because the report is about as informative as a phonograph without a record.

Secrecy naturally breeds curiosity. *FORBES* has spent months trying to discover what Nestlé may have been hiding. We have talked with security analysts, bankers and competitors. The picture that has emerged is not all black, not all white.

Nestlé is organized in a peculiar way. Nestlé Alimentana S.A. is a holding corporation. When an investor buys a share of Nestlé Alimentana, he also gets a share in another holding company, Unilac, Inc., which is based in Panama. Nestlé Alimentana and Unilac take earnings as they choose from their respective subsidiaries. Until last year, all that Nestlé shareholders were told about the group's earnings was how much Nestlé Alimentana and Unilac had drawn off.

In 1967, this figure amounted to \$38 million.

The report issued by Nestlé last year shows that consolidated earnings after taxes in 1968 were \$94 million, up 21.6% over 1967. The report also says that 1967 profits were hurt by the devaluation of the pound. Yet, in 1967 Nestlé Alimentana and Unilac together reported a rise in earnings of 23.7% over 1966. Part of this increase was simply the result of drawing off more from the subsidiaries, of capital gains and of apparent bookkeeping transactions. Some of the gain was due to the fact, too, that 1966 was a bad year. Nestlé had good reason not to reveal consolidated earnings figures before 1967.

The key to what happened—and what is happening now—can be found in the varying fortunes of Nestlé's subsidiaries. Nestlé does not issue the sales figures of its product groups, let alone the earnings they provide. What follows necessarily are estimates, but *FORBES* believes that they are reasonably accurate.

Nestlé has four principal product groups: milk products; chocolate, cocoa and confectionary products; instant drinks; and culinary products (seasonings, condiments, prepared foods). In the late Fifties, milk and chocolates were easily the main part of the business, providing two-thirds of Nestlé's revenues, milk products alone providing nearly half. They obviously were not growth markets, however, and Nestlé expanded into

In The Open. While *Forbes* found much of Nestlé cloaked in secrecy, its 34%-owned U.S. affiliate, Libby, McNeill & Libby, must operate in full public view. Right now, that view is of large losses and much management reshuffling to try to eliminate them (see story).





Tasty Business. Sales of Nescafé instant coffee, Nestlé's biggest success, have more than doubled in ten years. Profits have been enhanced by Brazilian coffee bean contracts guaranteeing prices below world market levels.

instant drinks, such as Nescafé, and into frozen foods.

The instant-drink business has been a great success, to the point where it now provides an estimated 40% of earnings. Nestlé is the established leader in the European instant-coffee market. In the U.S., the biggest consumer of coffee in the world, Nestlé lags behind General Foods, but Nestlé now has a respectable 16.5% of the market, having made a 2.5-point gain last year.

So much for the success story. The other product groups have not done nearly so well.

The milk and chocolate groups have grown only slowly. It has taken over ten years for either to increase sales by 50%. And the fact that both are in markets with a limited potential is just part of the story. Nestlé's competitors say that it was slow to understand the potential that did exist. And they have some facts to prove this contention.

Nestlé has always been strong in slab chocolates—the famous Nestlé bar. When the demand switched to other types of chocolates, however (candy bars with a chocolate coating, for example), Nestlé did not make the switch. The result was a serious loss of market share. Nestlé still has an estimated 10% in the U.S., but in the United Kingdom, where it once was among the leaders, its share has dwindled to 5%. In Germany, Sarotti, a Nestlé subsidiary, is now running behind even its Swiss competitor, Su-

chard/Tobler, despite the fact that Suchard/Tobler's chocolates are more expensive. In chocolates, Nestlé's operating margin started going down even before its market share did; it was only 3% in 1968. Last year not only its market share but also its sales were down.

Culinary products have been another disappointment. This is also true of frozen-food products. The result: While Nestlé's over-all profit margin on sales was 4.8% in 1968, the margin on instant drinks was 6.3%, but culinary products yielded only 3.9%.

The sluggishness of the culinary products group dramatizes a serious Nestlé shortcoming. The company expanded into culinary products by making acquisitions, but it appears to have made them, as one competitor puts it, "on a hunch." In all too many cases, Nestlé hasn't been able to cure what ails them. They have boosted sales while draining earnings.

In 1960, for example, Nestlé paid \$24 million for Crosse & Blackwell. It was an old, established soup, preserve and fish-canning firm. A venerable name. Unfortunately, it had seen its best days. It was in the red when Nestlé bought it. Since then, Nestlé has kept pouring money into the company, year in, year out. Sales have risen to nearly \$50 million. And it's still in the red.

In 1963 Nestlé was the leading partner in a European group that bought a 36% controlling stake in Libby, McNeill & Libby. In the years just





before Nestlé bought in, Libby was making a miserable 2.5% to 3% return on its stockholders' equity. Last year, after seven years of effective Nestlé control, it was in the red.

Nestlé's most unfortunate acquisition was Findus, a frozen-food company that it bought from the Scandinavian Marabou food group in 1962. Nestlé must have had great hopes for Findus. It was a solid company in a growing market, profitable but not sensational. And it was growing along with the market. All it seemed to need was capital for expansion. Marabou apparently sold it only because the company lacked the necessary capital.

Nestlé got nowhere with Findus. It proved incapable of competing with Unilever, whose ultrasophisticated management and marketing made it a byword in the European food industry. Nestlé managed to remain a market leader in Scandinavia, but elsewhere Unilever simply pushed it aside. Nestlé paid \$32 million for Findus. It has since run up losses estimated at \$50 million. Findus is responsible for almost \$150 million in sales—and a raging sea of red ink.

In the U.K., Unilever now has two-thirds of the frozen-food business. Nestlé had to go into a partnership with two small competitors, J. Lyons and Union International, just to stay in the running with 20%. The name remains Findus, but Nestlé now owns only 50% of the enterprise.

On the Continent, things have gone even worse for Nestlé. Early this year, it concluded an agreement with Unilever that provided for joint marketing of its frozen foods and ice creams in Germany, Italy and Austria. Unilever has 75% of the combine; Nestlé

has been reduced to having a junior position in a major part of the European food market.

Nestlé appears to have learned a few lessons from its experience. Among other things, it recently set up a special acquisitions division; hereafter, perhaps it will look twice before it buys. In addition, it has taken steps not to repeat in milk products the mistake it made in chocolate. It has begun to look for new ways to sell milk—as cheese, as yogurt, as fruit-flavored milk drinks. It also is going into mineral waters, now that pollution seems to be creating a growth market for them. Mineral waters would seem to be a natural complement to Nestlé's milk products.

Again, it has been diversifying through acquisitions, but these may be sounder than its past ones. In France it has acquired a leading bottler of water and has been seeking others. It has formed a joint venture with the famed Wagon-Lits, the company that operates Europe's railway sleeping cars; the joint venture owns restaurants throughout Europe. Clearly Nestlé feels the eating-away-from-home market in Europe has strong possibilities. There are also indications that Nestlé has been looking at the mass market for branded wines—though perhaps with some trepidation over mixing milk and water with alcoholic beverages.

Whether management will conclude that its policies of secrecy and of Swiss provincialism are, in the long run, harmful to its stockholders remains to be seen. Perhaps, as the need for expansion capital grows, Nestlé headquarters may decide that it might be wise to put on a better show for investors. ■

Input/Output. Swiss-based Nestlé gets many of the raw materials for its food products from developing nations, such as coffee beans from Latin America and cocoa seeds from Nigeria (shown drying below). Many of these same nations are also emerging growth markets for some of its high-protein foods and other end-products aimed at curbing malnutrition. At the same time, Nestlé's dietary foods, especially those for infant feeding, are finding large markets in the richer nations, in addition to its candy and coffee.



Steve Roman's Waiting Game

After more than a decade of triumphs, Canada's Steve Roman has his troubles.

STEPHEN BOLESNAV ROMAN, chairman of Toronto's Denison Mines Ltd., runs the world's largest uranium mine at Elliot Lake, Ontario. Like the rest of the uranium industry, Denison is in trouble. The Canadian government's stockpile program ended in June, and rising commercial demand has failed to take up the slack. The reason for this is that most of the nuclear reactors ordered in the mid- and late Sixties are coming in two and three years behind schedule.

Ever since uranium demand peaked out in 1959, Roman, a hard-driving, self-made multimillionaire, has moved

heaven and earth to develop other sources of income. He made an unsuccessful bid for control of Peru's vast Sechura phosphate deposit. He spent \$2.5 million on a nonferrous-metals deposit in Maine, only to mothball it for lack of adequate prices. He bought control of outfits like General Baking (now General Host) and Canada Cement, only to get out—at a good profit—when he found that their potentials were less bright than they had seemed.

Partly by accident, then, and partly by design, Denison came to depend on investment income, including capi-

tal gains, to offset the declining trend in its uranium profits. This year such profits virtually vanished, and in the first half Denison revalued its investment portfolio to reflect the decline in the market and charged the difference, which was \$16.5 million, to retained earnings.

To be sure, Denison has had its triumphs outside uranium. It acquired a controlling (55%) interest in Lake Ontario Cement. It established a successful though small oil and gas operation. It has built up major positions in companies like International Mining (5%), and Pacific Tin (36%). It began ex-

Maverick in the Promised Land

"TO UNDERSTAND how I operate," Steve Roman says in the leaden Slovak accent that intermittently interrupts his otherwise impeccable Canadian speech, "you must understand my philosophy. Which is farmer's philosophy. You look for the soundness of the company. I don't say we're good managers, but we can raise enough heck to do something about management."

A squat, powerful-looking man with a farmer's stance and style, a charming and irascible man given to grey pinstripe suits, two-toned matching shirts and a splash of pink in the tie, Steve Roman at 49 is one of the Horatio Alger legends of Canada's postwar mining boom. Roman came to Canada in 1937 looking for adventure after less than a year at an agricultural college in Czechoslovakia. He worked first as a farmer and later in a munitions plant, went into the army and wound up after the war editing a Slovakian language newspaper in Oshawa, Ontario and moonlighting for a local brokerage firm.

"I realized if I'm going to be a Slovak newspaper man," he says, "I'd just be poor for the rest of my life." So in 1942 he sank 2,000 hard-earned dollars into the stock market and lost his shirt. Undiscouraged, he went on to organize a syndicate to dabble in oil and gas, and wound up a millionaire before he was 30 years old.

In the early Fifties Roman got a chance to buy some mining claims in the vicinity of Rio Algom's fabulous Elliot Lake uranium discovery. He paid \$30,000 for them and sold them to North Denison Mines—a

copper-nickel outfit he had bought control of earlier—for 1 million shares. "I was informed that the property was not worth investing \$30,000 in, but I didn't believe it. It was simple farmer's logic," he says. "A big property to the north was already drilled out; the ore-

body dipped to the south, and judging from the geology the ore deposit could have repeated itself."

It could and did. Denison turned out to have the biggest uranium mine in history, and before the Fifties ended Roman's million shares were worth over \$16 million. So

Roman of Denison



ploring in Canada, the U.S. and South America, and in 1970 turned up substantial amounts of coal, including 100 million tons of good coking coal—what Roman calls “the most exciting new part of our business at present.”

But uranium is the heart of Roman's empire, and he is bitter about his government's policy in respect to uranium. In the mid-Sixties he worked out a deal to sell 100 million pounds of uranium to France for upward of \$1 billion. The Canadian government scuttled it, and the rebuff still rankles. With the French contract in hand, Roman says, Denison would be operating at full capacity instead of the current one-third. At the moment, Denison is living off one Japanese contract and has a second scheduled to start in 1974. But that's not enough to sustain a profit, and unless the govern-

ment resumes stockpiling, Roman says he will close the mine.

The Canadian government intervened in yet another Denison deal. Last March Roman worked out a sale of Denison's control to Hudson's Bay Oil & Gas, a 66%-owned affiliate of the U.S.' big Continental Oil Co. “With their joint resources,” Roman says, “Denison and Hudson's Bay could easily have carried the Elliot Lake mine for two or three years.” The Canadian government said no, the mine must remain Canadian.

For now, Roman appears to be playing a waiting game, threatening to close the mine in the hope of getting his merger, new stockpile orders or both. But at this point, nobody—possibly not even Steve Roman himself—really knows whether he's bluffing or not. ■

far the mine has produced 51 million pounds of uranium, earned over \$133 million for its stockholders; and there is still over 300 million pounds of uranium in the ground worth, even at today's low prices, more than \$2 billion. “I tell you how to make lots of money,” Steve Roman says. “You buy into a company nobody else wants.”

Once the Denison uranium orebody was discovered, Roman's advisers urged him to sell out. “‘Too much work,’ they told me, ‘too many headaches,’ and believe me, they were right.” Roman got plenty of offers, including a number from Rio Tinto Zinc, which controls Rio Algom, Canada's second-largest uranium producer. But RTZ wouldn't pay Steve Roman's price. “You're a farmer, Steve,” he recalls an RTZ director, Roy Wright, telling him. “You don't know how to bring the mine into production, so we'll get it eventually anyway.” “I made up my mind then and there that we'd bring it into production,” Roman says, “and we did—faster than anybody else, and the cheapest, and the best. So you ask me why? I wanted to prove a point.”

By style, by temperament, almost by choice, Roman remains something of a maverick in Canada's Anglo-Saxon business community, one of the clubbiest and stuffiest on earth. A political conservative, at least by U.S. standards, a warm personal friend of President Nixon, he is inclined to interpret events in the apocalyptic terms of collectivism vs. individuality, Communism vs. Christianity. He is a warm and friendly man, but also abrupt and

prickly, with the posture of the underdog. Indeed, he blames Denison's continuing troubles with the Canadian government primarily on prejudice. “That's a fact,” he says. “I'm not a diplomat, and I'm not satisfied unless I say the truth.”

Roman won't talk about the size of his personal fortune, only part of which is in uranium. But even in the current market slump, his direct holdings in Denison (12.5%) and in Roman Corp. (over 50%) which controls 25% of Denison, are worth around \$20 million, vs. \$80 million only three years ago. Which is one reason the Hudson's Bay sale would be attractive. For the 1.6 million shares held by Roman Corp. and by Steve Roman and his family, Hudson's Bay has offered \$51.1 million in cash, \$42.9 million in notes due in 1971, and \$10 million in convertible Hudson's Bay stock.

What Roman would do with that much cash is anyone's guess. He admits his ambition is to make Roman Corp. a major Canadian company, mainly in natural resources. But first, he says, he would rest a while. “My father was a farmer,” he says, “a few pigs, few cows, few chickens”; and Steve Roman still likes to think of himself as a farmer. He has a 1,200-acre farm outside of Toronto where he's raising four sons, three daughters, and some of the best Holsteins in North America. “One who decides to work a little bit harder than the next person,” he says in his best farmer's manner, “he always gets just a little bit more than the next person. If he gets lucky, that helps too. That's all there is to it.”

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Railroad, Anyone?

Unable to sell the Chicago & North Western Railway, Ben Heineman would almost give it away.

TO CHICAGOANS, Northwest Industries President Ben W. Heineman was the man who made the commuter trains run on time. To Wall Streeters, he was the outsider (a lawyer by trade) who was going to show the railroad industry how to run a railroad. After 15 years of trying to turn the Chicago & North Western Railway around, Heineman has given up; having used it as a nucleus for his conglomerate holding company (chemicals, steel, apparel), he found the nucleus becoming a millstone. After failing to sell or merge the railroad, he hit upon another ploy: "Sell" it to the employees.

Since the employees obviously don't have the money to pick up a \$734-million piece of property, he would make it very easy for them. The asking price: \$30 million worth of long-term bonds. Since existing—and senior—North Western railroad bonds sell at huge discounts, Heineman was in effect offering, for the equivalent of maybe \$15 million, a property whose stockholders' equity alone runs close to \$400 million.

Why virtually give it away? Several very good reasons. For one thing, the railroad's crushing (\$360-million) debt load burdens the parent Northwest Industries' balance sheet.

Perhaps even more important is the railroad's tax situation. Under railroad tax rules, capital losses are equivalent to operating losses. The proposed sale of the railroad's assets would thus create a huge tax credit for Northwest Industries, perhaps as high as \$225 million. The huge new tax shelter would enable Northwest to make new acquisitions on a very favorable basis.

Will the ploy work? That remains to be seen. The purchasing employees now consist of just railroad President Larry Provo and Legal Vice President Richard Freeman. Heineman says there will be others: "We've got union support for this."

There are several big "however," however. Both the bondholders and the Interstate Commerce Commission may object to seeing the railroad lose one of its biggest assets, the tax-loss potential.

And then there is the matter of working capital. Northwest Industries right now is in a deficit working capital position. Where can the employees get the working capital to keep the railroad running?

The Chicago & North Western Railway may be difficult to give away. ■



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The Money Men

Opportunity of a Lifetime?

ABOUT AS EUPHORIC a view of the stock market as we've heard recently emerged from an interview with Beryl W. Sprinkel. A short man fighting the battle of the bulge, Sprinkel, 47, is senior vice president of Chicago's Harris Trust & Savings Bank. By euphoric, we don't mean that Sprinkel thinks everybody's going to get rich fast. But he does think that from here on the market's trend is going to be upwards, gently upwards, and that the kind of wild speculation that nearly killed us all over the past few years is unlikely to be repeated.

Maybe one reason Sprinkel has such a rosy view is that the Federal Reserve Board is following policies he approves. You see, Sprinkel is an economist as well as a money manager. As a member of the bank's senior trust investment committee, he helps oversee the \$4.5 billion in trust accounts managed by Harris Trust. As an economist he has been a consultant to Congress and the Fed and is a disciple in good standing of Milton Friedman's "Chicago School."

Simplified, the Chicago School says that the economy ebbs and flows as the Fed increases, or decreases, the nation's money supply. Sprinkel has developed a corollary: that the stock market pretty much does the same thing; it goes *down* when money is hard to get; it goes *up* when there is plenty of money around. In short, he cares less about earnings trends, price/earnings ratios and such than he cares about the money supply.

Says Sprinkel: "When liquidity is squeezed by the Federal Reserve, individuals tend to convert stocks to cash." Not necessarily because they're pessimistic, but because they need the money. Same thing in reverse when the Fed pumps money into the banking system. People tend to buy stocks, not necessarily because they're more optimistic, but simply because they've got more money available.

But we said Sprinkel isn't just bullish but almost lyrical. Why?

"My hunch is, we are entering a new period. The Fed is saying it wants to reduce the volatility of money, instead of gusting from no growth to 8% and back again as it has done in recent years. It has

managed to accomplish this, too, in spite of interruptions like Cambodia and Penn Central. So, I am reasonably confident we are entering an era of reasonably stable monetary growth, say, at a moderate pace of 4% a year. At that 4% rate of growth it will be impossible to get serious inflation."

Sprinkel regards "serious inflation" as bad for the stock market, and with inflation under control and the economy still growing, Sprinkel expects the stock market to resume its own growth—a growth that stopped in a long-range sense when inflation began getting out of control in 1966.

Take it easy, though. Sprinkel explains that he doesn't expect a resumption of a roaring bull market. He expects to see the Dow Jones industrials at around 800 by early next year—about 6% higher than at recent prices. But he definitely feels that the bear market is over, and that prices should continue to rise past 800. So, perhaps in a few years' time the DJI will get back to 1000. (Remember?)

Of course, this kind of market isn't necessarily good for stock brokers, who thrive on big volume and boiling markets, or for go-go money men. The money supply will be growing steadily, not erratically. "One of the reasons for a high degree of speculation is a high degree of liquidity. Restrain liquidity and you restrain speculative trading. At least I'm hoping so."

Being a sensible man, Sprinkel leaves himself a few outs. Obviously, a major new war could upset his timetable. "You still will get shocks from the outside," Sprinkel says. He has studied the relations of stock markets and money supply going back for 30 years. He has found only one time when the two didn't move together. That was in 1939 when the money supply was expanding. But the market collapsed. Sprinkel, however, has a darned good excuse for this failure: Hitler chose that time to go berserk. Not even a monetarist thinks that the money supply is any match for Hitler.

Such cataclysms aside, Sprinkel feels that extremes of emotion, extremes of hope and fear, tend to cancel each other out, and money



Sprinkel of Harris Trust & Savings

supply remains the strongest long-term factor.

For example, he concedes he didn't expect the market to collapse completely this year. He did expect it to go down because of tight money, however, and he speculates that the invasion of Cambodia was the emotional shock that turned a retreat into a rout. But here again he feels vindicated because the stock market, the emotional shock past, has recovered most of the loss and seems to be rising moderately along with the money supply.

As you can see from this interview, Beryl Sprinkel isn't a man given to extravagant statements. He measures his words. But toward the end of the interview, he got almost carried away by his vision of a carefully modulated money supply fueling a gentlemanly rise in the stock market. "With price/earnings ratios now in the 12-to-13 range, with real potential existing for economic growth, with less volatility in the money supply, with less inflation, stock market prospects seem good to me."

Not merely good, Sprinkel added after a pause: "The opportunity for the investor is one of the best in my lifetime."



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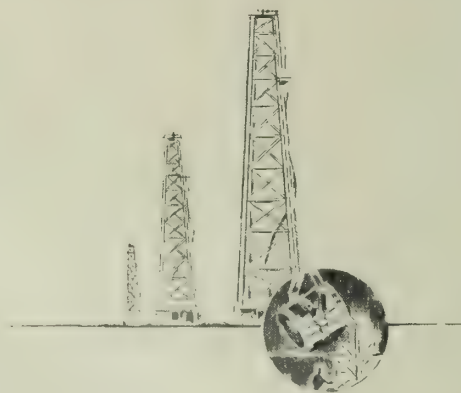
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The Money Men

"Yesterday's Heroes"

"LEO, come over here and answer some of the questions."

"I can't, Stan, I'm busy packing up. You're doing fine."

That bit of dialogue took place last month in the offices of the now-dissolved private investment partnership, Mt. Vernon Associates, as security analyst Leo Goldner prepared to join Devon Securities as head of institutional research and Stanley Fingerhut rejoined Oppenheimer & Co. as a customer's man.

The two were typical of young gunslingers (Goldner was 35, Fingerhut 32) who started up private investment partnerships, often called hedge funds. As Fingerhut sadly says, "We're two of those glamour boys, yesterday's heroes and today's bums."

They were heroes when the performance cultists claimed that few mutual funds had any good gunslingers left because hedge funds had attracted the best money managers. After all, in an up year, hedge fund managers took a share of the net profits, up to 20%, as partners. A managing partner often raked in six figures in a single year.

Leo Goldner





Stanley Fingerhut

But when the bear market came, the widely heralded ability of hedge funds to hedge by going short turned out for most to be a myth. Many got stuck with unmarketable letter stock and other hot issues that collapsed, while they shorted blue chips, which held up better than their speculative issues.

Result: There were no profits for the partners to divide up. After a rich 1968, it was poverty all the way. Fingerhut complains: "For two years, I made absolutely nothing. In fact, I was drawing on my original investment just to live." He and his partners not only found themselves battered by the market decline; they were also each contributing 5% of their investment to cover office space and overhead.

Initial investors had some fat years. But, says Fingerhut, "I felt real bad about the last four. [There were 26 in toto.] They never had the advantage of 1968's profits and ended up stuck."

Anyhow, Fingerhut and Goldner still have their clippings: They were two of the young men featured in Martin Mayer's 1969 "year book" (heavy paper, replete with glamour photos, Macmillan Co., \$10) entitled *The New Breed*. But, they will wince when they reread: "We're ancient around here. We've been through '59, '62, '66." They didn't quite make it through 1969-70. ■

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"We Know Where We're Going"

Houston Natural Gas may have come a long way from its original natural gas business, but not quite so far as it seems.

LOOKING at the record, you might imagine the Houston Natural Gas Corp. had for several years been converting itself into some sort of quasi-conglomerate—though by no means in the likeness of, say, Gulf & Western, whose co-founder, John H. Duncan, has been a member of Houston Natural's 11-man board of directors since 1968. But Houston's astute and eloquent President Robert R. Herring, 49, will assure you that you're dead wrong. "We think we know where we're going," he says.

It is true that Houston has been energetically expanding its basic oil and gas business over the past few years—building a new pipeline out of West Texas into Houston, acquiring a Texas oil and gas exploration company, a Louisiana gas-transmission outfit. At the same time, however, it has moved into uranium exploration via a partnership with Ranchers Exploration and with Combustion Engineering; into industrial gases by acquiring Liquid Carbonic; into copper through its yet-to-be-completed acquisition of Banner Mining. A far cry from natural gas? Admittedly. But, Bob Herring argues that these excursions are not really departures; they're simply extensions of the basic business of Houston Natural Gas.

FPC-Free

Certainly, among U.S. gas pipeline companies, Houston has had less need to diversify than most. For one thing, the Texas Gulf Coast is one of the fastest-growing U.S. energy markets, and HNG serves almost all of it. HNG has even been able to enlarge its gas reserves substantially, and is now building a 500-mile pipeline to meet the soaring needs of its territory.

More important, as an intrastate pipeliner, Houston is free of the restrictive Federal Power Commission regulation that has sent the profits of interstate companies into a long-term decline. Since 1965 its return on equity has averaged better than 15%, while its earnings have grown more than 70%—or 11.3% annually—to \$16.2 million on a 173% increase in sales—to \$201 million. And Herring expects earnings to keep on growing by maybe 15% annually. "On average," he emphasizes. "We can't do that every year."

HNG's special circumstances aside, Herring sees no end to the mounting gas shortage in prospect, and that's why HNG went after Liquid Carbonic. To meet the enormous demand for gas, Herring argues, the U.S. will have to turn to the gasification of coal, and do so before the decade is out.

HNG lacked the resources to acquire coal lands for the future as the big oil companies are doing. But Herring figured that coal gasification would require vast amounts of oxygen and produce carbon dioxide as a by-product. And when a government order forced General Dynamics to divest itself of its Liquid Carbonic carbon dioxide and industrial gas division, HNG leaped at the chance to

buy. The price: \$36.8 million worth of convertible preferred.

Gasification wasn't the only attraction. Two of Liquid Carbonic's most promising products—hydrogen and carbon monoxide—use natural gas as their raw material.

Two Birds, One Stone

At the same time, the capital requirements of HNG's new \$75-million pipeline (left) threatened to create considerable strains in a company with a total capitalization of \$308 million and a 60-40 debt-equity ratio. "Growth should not exceed the limits of a company's own earnings and debt structure," Herring says. "We were spending so heavily to beef up our gas supply for the future that we could have been faced with having to go to the public with some equity to keep our debt ratios down."

So Herring has worked out an alternative to equity financing. He plans to trade \$179 million worth of HNG convertible preferred for 100% ownership of Tucson's Banner Mining Co. Among other things, Banner owns extensive mining properties in Pima County, Ariz. that are under lease to the Anaconda Co. Eventually, Anaconda plans to invest more than \$450 million in Banner's properties; it has already spent \$200 million of that to develop a huge copper-molybdenum deposit at Twin Buttes, Ariz.

In its first full year of operation, Twin Buttes will produce close to \$100 million worth of copper plus smaller amounts of molybdenum, and Banner is entitled to 55% of the profits therefrom. Just what this will come to is unclear at this point; but at current price and capacity levels, Herring talks of \$40 million-\$45 million cash flow annually, apart from the doubling of Twin Buttes' capacity or the development of a second mine, both of which Herring expects by 1973.

"Besides giving us additional equity," he says, "Banner will increase our cash flow to the point where we can move into the synthetic fuel area, move heavily into the drilling area and meet our obligations to both our customers and our stockholders without running to the money market every time we turn around." And he adds, with the conviction of one who knows precisely where he is going, "Any time I can put huge amounts of natural resources value behind this company and do it attractively for the stockholders, why, I'm for it." ■



The Market Makers At One New York Plaza Also Help Finance Corporate Growth.

January-June 1970: Six months that few corporate financial officers are likely to forget. Especially, if they were seeking to raise growth capital.

Yet, during those six months, Salomon Brothers managed or co-managed 67 public offerings totaling \$3.3 billion.* Of these, 15 were negotiated underwritings totaling \$1.7 billion.

During the same period, Salomon Brothers arranged 24 private placements that totaled \$255 million.

Every year since 1965, Salomon Brothers has been among the first five investment banking firms in dollar volume of managed or co-managed corporate underwritings. In three of the past four years it has been first in managing or co-managing competitive bid offerings.

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Salomon Brothers

Westinghouse growth report:

Our long term plan for



"For the past seven years, Westinghouse has achieved record sales. For the past five years, and the first half of this year, we have had record earnings.

"Perhaps more important, Westinghouse is following a definite plan for long term growth.

"Even without this plan, Westinghouse prospects for growth would appear good. Our Power Systems Company business is very strong. The Industry and Defense Company business grew last year in spite of a stretch-out in defense contracts and some slowing of capital spending. Our Consumer Products Company volume is up substantially. In the fourth company—Broadcasting, Learning and Leisure Time—broadcast revenues are expected to be about the same as last year, and our soft drink bottling operations are thriving. Learning remains developmental, but offers a major growth area for the future.

"But our corporate plan is adding growth in two new directions.

"First, we are entering a number of new businesses. The concentration is on new growth areas of the 1970s.

"The other main thrust is international. For many years, our principal foreign activities were Canadian Westinghouse, overseas licensing agreements and exporting. Now we are undertaking a major expansion of overseas manufacturing.

"In all this, our four company organization is proving helpful. Each president now has only four to six people reporting to him. The structure gives our top management and staff time to organize and plan for growth.

"This Westinghouse plan has already generated substantial growth. We believe it will lead to much greater growth over the decade ahead."

D.C. Burnham

Chairman
Westinghouse Electric Corporation

Manufacturing abroad: Westinghouse adds 35 plants

For Westinghouse, overseas manufacturing has become the shortest route to growth in the markets of Asia, Europe, Africa and South America.

Since the mid-1960s, Westinghouse has acquired control of overseas subsidiaries with a total of 35 plants.

These include manufacturers of elevators and semiconductors in France; a furnace company in England; a cathode ray tube producer in Venezuela; a company making air conditioning in Italy; a transformer maker in Australia; a nuclear fuel producer, in which Westinghouse is a partner with the Italian government and Fiat; and Cenemesa, with three electrical equipment plants in Spain. This summer we added an electrical equipment maker in Greece—Metallo-technica Electra.

Last February we acquired a majority interest in the Belgian heavy electrical equipment manufacturer known as ACEC, which then had billings of nearly \$160 million a year. ACEC has 14 manufacturing plants.



This Cenemesa plant in Cordoba, Spain, produces transformers, switchgear and lightning arresters.

With ACEC, Cenemesa and Metallo-technica Electra, Westinghouse has the foundation to become a major equipment manufacturer in Europe—almost as large a market for electrical equipment as the United States.

increasing sales and earnings



Westinghouse-built low income project in Charlotte, N.C. Three bedroom unit, \$90.50 a month.

Large-scale moves into "public problem" markets

Perhaps the most predictable growth markets of the 1970s rise from the demand for a better quality of life.

Control of pollution; decent housing for low and middle income families; more effective education for children; better traveling within our traffic-choked cities; better medical care at affordable prices—these needs must be met on an unprecedented scale.

To these problems, Westinghouse is applying a high level of technology, involving both the physical and behavioral sciences.

We have developed a complete capability to plan and install water treat-

ment and pollution control systems. We are now working on specific jobs for more than 50 customers, both industrial and municipal.

Westinghouse has become a major builder of low and medium income housing, with over 2,000 units under construction now. We are building plants to produce modular units for both low rise and high rise construction.

We have developed a computer assisted educational system, that frees the teacher to help each child realize his full potential. This is being tested in 17 school districts in nine states.

Extending our existing transportation business, Westinghouse developed a unique rapid transit system that offers a new level of convenience and comfort. We expect to see it installed in Pittsburgh soon.

Under government contract, Westinghouse is designing a "hospital of the future," applying new technological approaches to give patients better care at low cost.

Other "public problem" areas in which Westinghouse has made substantial investments include urban planning and development, computer services, job training, crime prevention and the administration of justice.

Defense against cycles: opposite cycles

A decade ago, a dip in a single segment of the economy could have seriously hurt total Westinghouse sales. Today, our broader product mix provides an effective buffer against such cyclical swings.

This year, for instance, individual home building has lagged. But this weakness has been more than offset by gains in commercial building, a field in which Westinghouse is strong.

Similarly, industrial capital expenditures have been somewhat slow, but electrical utility orders have been high, strongly counter to the industrial trend.

As Westinghouse continues to expand into new businesses, we expect this protection against cyclical dips to become still more effective.

How Westinghouse nurtures fledgling businesses

A new business at Westinghouse starts as a small organization—with access to consulting talent that no small business can ordinarily afford.

During the development stages, the new organization is attached to corporation headquarters. For planning assistance it has direct access to the senior people of the Westinghouse headquarters staff—legal, financial, engineering, marketing, etc.



Water clarification system for Decatur, Illinois, built by Infilco, part of recently developed Water Quality Control Division.

The idea is to help the new business along until it becomes viable, then attach it to an appropriate line organization as a full-fledged operating division. This happened recently with the Water Quality Control Division. Started as a small department in 1968, it was attached to the Industry and Defense Company when sales were well over \$25 million a year.

At this writing, Westinghouse is developing four businesses under the headquarters wing: medical products and services, computer services, government services, and security against crime, fire and other hazards.

You can be sure...if it's Westinghouse



NEW SERVICE BUSINESSES HELP STEADY WESTINGHOUSE SALES

About 10% of Westinghouse business is now in the service industries, where demand is steadier than in manufacturing.

Among the services we now sell are electrical equipment repair; hospital planning; training entire work forces for new plants; factory maintenance; environmental studies to help utilities in siting new power plants; socioeconomic studies to help communities or areas plan their development; complete software and computer management services; and studies to help government bodies reduce administrative costs.

That Queasy Feeling

The nation's health insurance companies are running a fever as Congress heats up a battle on government-supported health insurance.

THE LOOMING BATTLE for a national health insurance program is bringing back uncomfortable memories for the private health insurance companies. It's like remembering Waterloo from Napoleon's point of view: After marshaling all its money and brains in the early Sixties to oppose Medicare and Medicaid, the industry lost badly. The real pinch came later in the estimated \$750 million in premiums the companies have lost because of the federal health programs.

Now, a more desperate contest is in the offing. Recently, at a Senate hearing chaired by Senator Ralph W. Yarborough (Dem., Tex.), a lame-duck liberal Democrat with little to lose, the opening gun was fired as witnesses testified on a bill that would provide government financing for cradle-to-grave health care for everybody in the U.S. The Social Security system would handle the whole scheme, cutting out private insurers completely.

The plan, introduced by Senator Edward M. Kennedy (Dem., Mass.) with wide labor support, is but one of five major health insurance proposals up for debate. Even the ultraconservative American Medical Association has one. (The fact that it comes from that quarter is perhaps the best signal to the insurance companies that they aren't satisfying the nation's health needs.) But whereas the AMA's and

several other conservative plans would throw government-subsidized business to the insurance companies, the Kennedy plan and a similar one introduced (also with labor support) by Congresswoman Martha W. Griffiths (Dem., Mich.) would take over the insurance companies' function. Under the Kennedy plan, says Daniel W. Pettengill, the industry's foremost spokesman and vice president of Aetna Life & Casualty, there's "no hope" for the privates.

That may be a premature obituary; the industry actually did fairly well under Medicare with premiums up since 1965 some 25% or \$2 billion. The companies even made money from citizens covered by federal plans, jumping in with policies that provide extra income or plug up gaps like Medicare's \$52 deductible. But that doesn't mean that the biggest health insurers—life insurance companies like Aetna, Travelers and Metropolitan Life—want to give up any more health business even though they say it isn't very profitable these days. "Those billions in premiums," points out Pettengill, "pay for an awful lot of overhead." And, he adds, with an easing in inflation and the shortage in medical facilities, health insurance has got to become a good business someday.

But there is a more direct threat to the companies in this battle. Propo-

nents of the Kennedy and Griffith plans charge the companies with being largely responsible for the mess in the nation's health services (*FORBES*, Mar. 15, 1968). "The health insurance companies are the major barrier to our bill," says Max W. Fine, one-time public relations man for the industry who is presently executive director of the committee that drafted the Kennedy proposal.

Fine's basic position on health insurance is that by concentrating on sales of hospitalization and major medical insurance, the insurance companies have unbalanced the system. "There is twice as much surgery in this country as in countries with far better health records," he says. "One in four patients in hospitals doesn't need hospitalized care."

The industry claims Fine is confused, though it has been unable to get some 300 members of its Health Insurance Association to agree on a unified counter plan. Therefore, it may fall in behind one first suggested by Aetna's Pettengill. Under it, regional insurance pools would insure the poor and near-poor by subsidizing private insurance plans with government aid, and government funds would encourage, among other things, outpatient facilities.

Though the opposition calls this "just the old call for subsidization," at least the companies aren't putting their heads in the sand as they did during the 1965 Medicare fight. Then, they handled themselves so badly that they alienated one of their firmest friends, Senator Jacob J. Javits (Rep., N.Y.), who himself has now come up with a plan that pays only scant attention to the insurance companies.

Interestingly, back in 1949 Javits co-sponsored a comprehensive plan with an up-and-coming congressman from California named Richard M. Nixon. Presently, the Nixon Administration—till now preoccupied with other things—is struggling to come up with its own plan by February.

The fight won't be in full swing until sometime next year, and by Presidential-election time in 1972 it will probably be a big issue. What if the insurance companies lose? "We'd probably have to make a slow retreat," says Pettengill, "like in Canada. There, first the hospitals went and then the physicians. We still have dental and prescription drugs. We are down to one-fourth of the premiums, but it wasn't a disaster." ■



The late Walter Reuther (right) first got Senator Edward Kennedy involved in the current bid for health insurance to cover all Americans.

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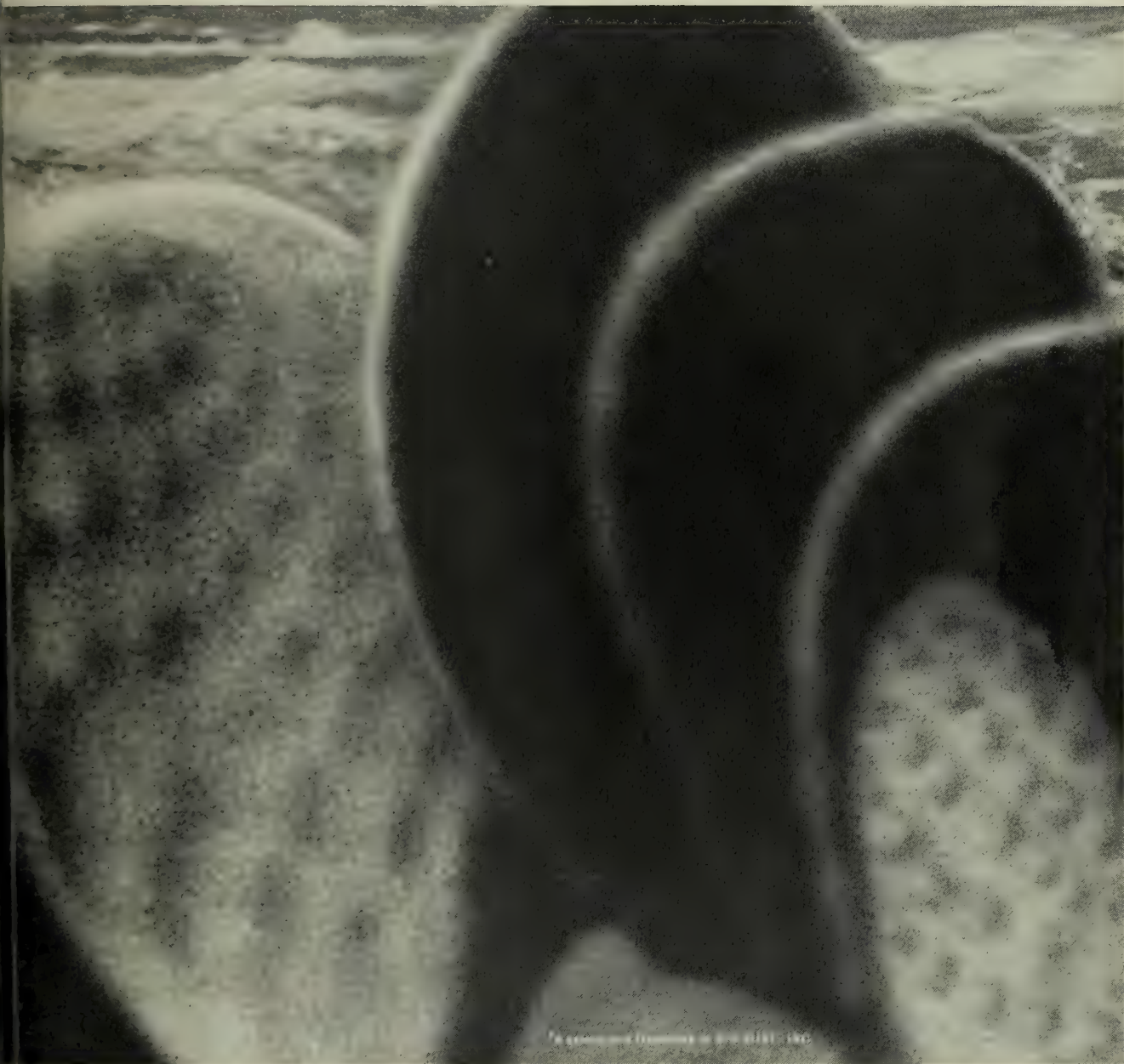
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Head Start

Wall Street is discovering real estate. Meanwhile Coldwell, Banker is quietly and profitably growing into a national company.

THE TYPICAL real estate broker is privately held, has a single office and a dozen or so people who specialize in one or two kinds of real estate.

Coldwell, Banker is not the typical real estate broker. It has 70 offices, a staff of 1,800, revenues of \$38.7 million, and is knee-deep in just about every aspect of real estate: selling, leasing, managing, appraising, lending, insuring. Publicly held since 1968, Coldwell, Banker has managed to compound its net earnings at the rate of 40% annually in recent years. No wonder that Executive Vice President C. Wesley Poulson told the New York Society of Security Analysts last spring, "If we could choose a course of action independent of trends and competition, we would prefer to change nothing and remain the same."

Coldwell, Banker's pot of gold has been the exploding California real estate market which it has been in for 64 years. By focusing mainly on brokerage—sales and leasing—it has been able to expand quickly without piling up the large amount of debt that leverages most real estate operations.

Much as Coldwell, Banker would like to relive the past, it is now striking out afresh. In recent years, it has branched out from California, establishing offices in Washington State and Texas, and is becoming a factor in large shopping-center projects in Salt Lake City, Baton Rouge, Chicago and Atlanta. "We're spreading out," says 67-year-old President George Morgan Mott. "We will have national representation before too many years."

The biggest reason for this change in strategy is to capitalize on potentially lucrative new markets like Houston. "We do a lot of business with chain stores and national corporations," explains the 40-year-old Poulson. "They like our service, and as they expand into other areas, they will want to use us." Another motive: to get deeper into higher-profit industrial and commercial properties. Example: The 630-acre Warner Ranch, located in Los Angeles' San Fernando Valley, which Coldwell, Banker first sold to Kaiser-Aetna for \$30 million in 1969, and then became its sales, leasing and managing agent. The sale alone meant \$1.5 million in commissions and contributed almost 30 cents a share toward record 1969 earnings of \$1.54. (In fiscal 1970 there were no such big deals and fewer small ones, too, so per-share earnings dropped to \$1.04.)

But the expansion is defensive as well, for Coldwell, Banker is getting increasing competition from eastern brokers and Wall Street firms. Manhattan-based broker Helmsley-Spear Inc. remains a private company, but it now has offices in Chicago, Detroit, Los Angeles, Washington, D.C., St. Louis and Houston. This summer another Manhattan broker, Cushman & Wakefield, allied itself with big-time backing when it agreed to merge into RCA. Already Cushman & Wakefield is probably the biggest office-building broker, and it has been giving Coldwell, Banker stiff competition on the West Coast.

Newcomers Galore

So far, Wall Street has stuck pretty much to real estate financing rather than sales. Eastman Dillon, for example, which has one of The Street's oldest real estate operations, sells property only as a complementary part of its financing services. Yet many oth-

er firms are trying to find their way into real estate and some are bound to take a try at brokerage. Hayden, Stone for example, now part of Cogan, Berlind, Weill, Levitt-Hayden, Stone Inc., has closed two big deals in the past two years and has netted an estimated \$3 million in real estate commissions and other fees. On the other hand, the increased Wall Street activity could help Coldwell, Banker if The Street could channel big new money into real estate.

As a public company, Coldwell, Banker's toughest problem is getting and keeping good people. Real estate brokers are traditionally an independent breed. The ambitious ones are often unwilling to work for someone else, especially a big company. At Coldwell, Banker the problem has been aggravated by its long-term reluctance to let employees own any investment property. This assures clients that employees aren't skimming off the best deals, and has helped earn Coldwell, Banker high marks for ethics. But it aggravates the problem of keeping good people. It is tough, says Poulson "to take good real estate people who, by definition, are entrepreneurs and try to harness them into a kind of mold for the common good."

There are some who are skeptical that Coldwell, Banker is up to the task. Says one competitor: "Coldwell, Banker is going to have a tough time keeping it all together and really running it the way they originally hoped." Another competitor says that while Coldwell, Banker is noted for its strong relationship with old clients, it is unaggressive about getting new ones.

Poulson bristles at the second criticism. "I would take exception to that statement completely," he says. "We don't wait for people to come to us. We go out and get them."

As for the personnel problem, Mott and Poulson are trying harder to hang onto the good people. A deferred compensation plan has been set up. Employees are allowed to invest in a limited number of company deals. And Poulson hopes that the new tax laws, which will set a maximum 50% rate on earned income, will make straight investment commission income more attractive to his salesmen, some of whom earn as much as \$200,000.

In short, Coldwell, Banker thinks a real estate brokerage firm can go national. If it is right, tomorrow's brokerage firm may well look a lot like today's Coldwell, Banker. ■





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Goodbye to Goodbody?

And another famed old brokerage house loses its independence.

THINGS have been looking up for investors in recent months, what with the strong summer rally, but much of Wall Street remains a disaster area, and many veterans swear that 1970 is worse than 1929 as far as their business is concerned. It is not only the Johnny-come-latelies like Charlie Plohn that are in trouble. House after house that survived 1929 has folded or been merged this year: Hirsch & Co.; Hayden, Stone; Glore, Forgan; Dempsey-Tegler. Latest to go: Goodbody & Co., 79 years old, with revenues last year of over \$100 million, the sixth-biggest Big Board member firm.

New York-headquartered Goodbody is being acquired by Los Angeles-headquartered Shareholders Capital Corp., manager of such mutual funds as Enterprise and Fletcher and a number of offshore funds. The acquisition appeared to be quite a bargain for Shareholders: It is paying just \$10.6 million, half in debentures, half in Shareholders' own stock, for Goodbody—just under the book value of Goodbody's capital. In short, Shareholders is getting the whole 100-office network and all that goes with it for next to nothing.

Why such an apparent bargain? The gossip is that the Goodbody family, which supplies most of Goodbody's subordinated capital, was getting nervous about the continuing operating losses and shrinkage of asset coverage. In Goodbody's case this could be catastrophic, because a firm that large requires huge amounts of capital. About 80% of Goodbody's \$50 million was subordinated capital. In the brokerage business, subordinated capital is not true equity capital; it is a kind of loan—but with a difference. In case of a failure of a partnership like Goodbody, subordinated capital-holders could be liable for the claims of all other creditors if the general capital is inadequate.

Shareholders, whose own assets of \$45 million are reasonably liquid, presumably can provide a cash infusion for Goodbody. The merger also gives the subordinated capital interest additional protection. The deal is much more of a takeover than it is a merger, because Goodbody partners will end up with only about 15% of the voting securities in the merged firm.

Presumably, Shareholders can shrink Goodbody down to a point where it will be profitable again, thus ending up with a useful retail brokerage network at little or no cost.

Even so, it is hardly a marriage of



Douglas B. Fletcher, 45, built what is now Shareholders Capital from managing \$5 million in assets to \$1.4 billion in just seven years. He owns some 25% of the company, once worth over \$50 million, but only \$7 million at current prices. With the Goodbody purchase, the West Coast money magnet invades Wall Street.

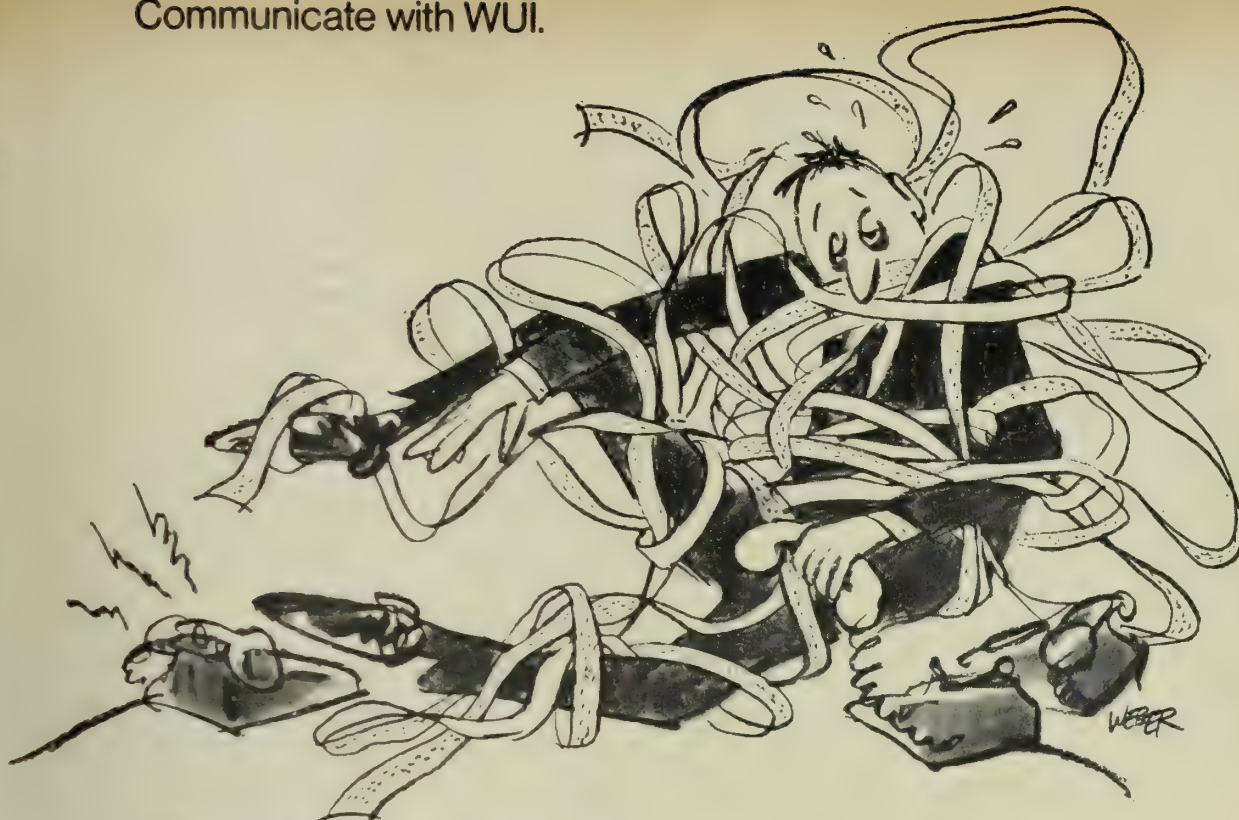
strength. Goodbody, in addition to its capital problems, has been deep in the red. So has Shareholders Capital, which lost \$1 million in the first half of 1970. Shareholders' biggest fund, Enterprise, is down from nearly \$1 billion in assets to about \$500 million, partly because its performance has been dismal and because it has been prohibited from selling shares since last February.

Goodbody was the major broker-dealer for Enterprise Fund and other Shareholders' funds. Says Edward N. Bagley, Goodbody's managing partner, "We didn't just meet them in the hallway last month." Presumably Shareholders could channel even more of its brokerage business through Goodbody.

It's a question whether the merger violates the New York Stock Exchange rule banning financial institutions from membership, for the deal could be viewed as simply buying a member firm. But with its insurance fund running out of money, the NYSE apparently isn't asking too many questions about a deal that could stave off another major crisis.

How the mighty have fallen! ■

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Birds of a Foreign Feather

Big corporations flock to a small school in Arizona—to send the graduates packing.

A SMALL SCHOOL with an unlikely name, sitting on the edge of the desert outside Phoenix, Ariz., has a special lure for major U.S. corporations. Firms like Caterpillar, American Express, Mobil and Union Carbide hire its graduates for only one purpose—to send them away.

The 750-student Thunderbird Graduate School of International Management is unique in the U.S. as the only school grooming students exclusively for international careers, primarily in business. Relatively unknown in the U.S., these "Thunderbirds"—some 6,000 of them now—abound in middle- and top-management slots from Moscow to Montevideo, the Sudan to Singapore.

What makes them so special? Exposure to the realities of what they

will face in the country of their choice; a good working vocabulary (up to 3,000 words) in the language, taught by nationals of that country (who also steep the graduates in its customs and culture); and a sophisticated novice's appreciation of the niceties of dealing with top nationals on their own terms.

The school is located in a palm and olive setting 16 miles outside Phoenix in the grounds and buildings of a World War II Army Air Force pilot training center. It was the brainchild of the late Lieutenant General Barton Kyle Yount, who was also a prime mover behind the Air Force Academy at Colorado Springs, Colo. Yount, commander of the Army Air Force Training Command during World War II, started it in the con-

viction that U.S. business would be widely involved internationally once the war ended.

First known as the American Institute for Foreign Trade, the school opened in 1946 with a handful of students and a "learn-as-you-go" curriculum. Its capital funds were unsecured loans from Arizona banks and the school's directors. Yount was president until his death in 1949. His grandson was enrolled this fall.

Today, full-time graduate students are offered a two-semester course resulting in a Bachelor in International Management degree, or a three-semester program giving both a bachelor's and a master's degree. There are special Key Man courses that enable corporations to send men to Thunderbird for intensive three- or six-week language-and-culture programs. General

U.S. Business Worldwide: Arizona View

Thunderbird Graduate Schools professors often are men with a lifetime of business experience abroad behind them. But this first-hand knowledge is important to more people than just Thunderbird students. Forbes asked two professors, Christian Larsen and Alvin Marks, to go as far out on a limb as they could on what they thought about U.S. industry's international involvements.

U.S. corporations are leaders in multinationalism, American banks are opening up around the globe. Does this mean the U.S. is ahead of the game in the world market?

LARSEN: No. Exports are lagging. World trade increased by 14% last year, but U.S. exports increased by only 7%. In 1966 we had an \$8-billion trade surplus—very healthy for our balance of payments. This year we'll be lucky to get \$2 billion. We're not keeping up.

Why not?

MARKS: America is still accustomed to being its own best customer. Exports are only 4% of our gross national product. That's a lot of money, more than \$30 billion. But we must be a trader nation. If the world doesn't trade we go back to the Thirties.

Do you favor trading with the Communists?

MARKS: I think it absolutely essential that we trade with Russia and with every Eastern bloc country. And we must open up China.

LARSEN: It's essential we trade with China, for they're already doing busi-

ness with other countries. Plus I think in trading we get to know the people better—it's the most beautiful relationship that can develop for people-to-people programs.

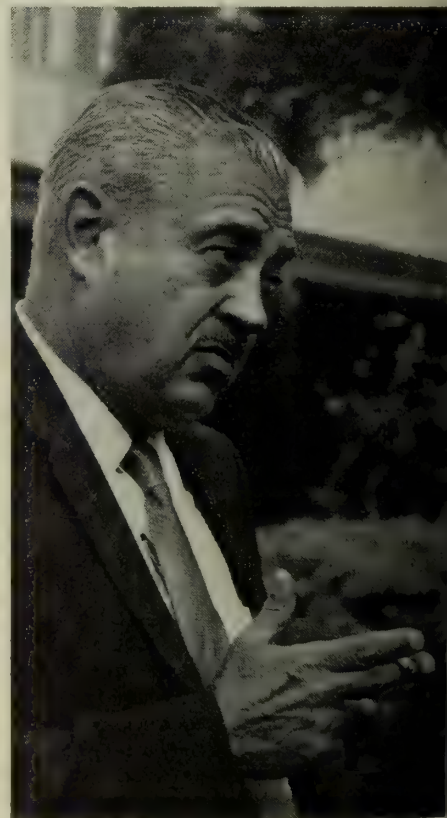
The British and Canadian governments increasingly have their foreign services acting as operating arms of their commercial interests. This greatly helps their businessmen. Should the U.S. State Department follow suit?

LARSEN: It helps if our ambassadors have a feel for international business. An understanding. But I don't know that they should be more involved than that. The unfortunate part of our system is that the ambassador is in a post for only two years. By the time he's just getting to know the nationals, he's gone.

Is the two-year tour mandatory?

LARSEN: No. It is State Department custom.

MARKS: You must realize that the U.S. Government is a world leader, a political superpower with a superpower's responsibilities. In my view we shouldn't try to mix the State Department and our international businessmen. But the commercial and political



Professor Marks

attachés should be better trained, more aware of what the businessmen are doing, and why.

In the years since The Ugly American has the U.S. image improved?

MARKS: There's still a great deal that's good and favorable that U.S. embassies should be telling the nationals about America and about American operations in their country. The U.S. invented public relations, but you wouldn't think so overseas. The State Department seems afraid to release

ly speaking, however, students in the two- or three-semester programs are not working for companies—yet.

"Most of the people here are paying their own way," says a school spokesman. "That's about \$6,000—including living costs—for three semesters." Married students predominate, and wives are encouraged to attend classes. "We have no dissent problems here; everyone's too busy," adds Alvin M. Marks, professor of International Management.

Everybody Gains

Thunderbird School may be unique operationally, too—90% of its operating expense is met from student tuition and fees. However, for a business-oriented college, it is fast picking up on corporate-giving techniques. Last year, when corporate-giving to private

education generally was down, Thunderbird got more than it sought—and as a result now has a \$500,000 library under construction. Not merely a library, of course, but an information-collection-and-retrieval center on everything connected with international trade, including highly specialized country files chockablock with material fed back from past graduates.

The newest acquisition at Thunderbird is its president, Robert F. Delaney, 44, who took up his post last month after directing the Edward R. Murrow Center of Public Diplomacy at Tufts University's Fletcher School of Law. Before that, Delaney was an assistant director of the U.S. Information Agency, and previous to that had been public affairs adviser for Esso Standard Oil in the Caribbean and Central America.

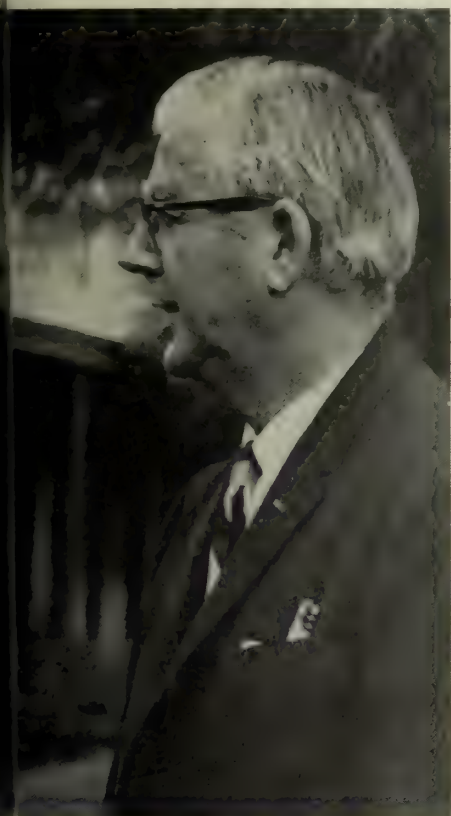
Delaney aims to keep Thunderbird as far ahead of the pack in the Seventies as it was in the Forties, Fifties and Sixties. "It's no longer just the profit-and-loss statement in the inter-

national picture. Now there are tough political, social and psychological factors—nationalism is an example—that will weigh increasingly heavily in international dealings and how they are approached. That is where this school will come in."

On the Line

Thunderbird students learn the cold realities of international business from professors who held top managerial jobs around the world, men like Marks, former industrial relations director overseas for several large corporations, or Christian Larsen, former president of Esso Standard Eastern, who heads the school's international commerce department. They learn that a tropical paradise can be a living hell, that on-the-spot responsibility often demands nerve-wracking, split-second decisions, that in parlous times the warm security of corporate headquarters is too far away to be helpful.

What better time and place to learn these things? ■



Professor Larsen

facts. Stuff that should be front page in foreign capitals ends up in small type on page 17 because communicating with the nationals is in a miserable state. America's image suffers because of it. The climate for doing business would be helped by good PR.

Plus we have all these junketing senators and congressmen who drop in and make fools of themselves. They love to insult whichever country they've visited last with high talk of corruption and graft.

You mean that it is one more case

of the pot calling the kettle black?

MARKS: Meaning they could be more diplomatic about it. All they seem to want is headlines.

Which U.S. industries really know how to operate overseas?

LARSEN: The oil industry, of course, has to be No. One. They have larger investments than other industries—they've been in the field longer than most of the others.

MARKS: And they've become socially conscious to a tremendous degree, because with their heavy investment they have to look down a very long road.

What could the U.S. Government do to help the U.S. international businessman generally?

LARSEN: Provide one single coordinated agency at the federal level to handle the U.S. international businessman. It should be capable of everything from paperwork to guaranteeing credit. There are just too many organizations involved.

Is that what our export industry most needs?

MARKS: One thing it certainly needs is lower-cost goods. Costs of U.S. goods abroad are getting way out of line. Then there's this move to protectionism, and that could make things more difficult. Look at steel. I'm afraid the

steel industry is spending more money in Washington than it is in improving its plants, while Japan roars ahead of us.

LARSEN: What's happening here is that the U.S. companies can't cut down in labor costs, and at the same time productivity is going down. They have to save on the materials.

MARKS: If you look at some of the products coming out of the U.S. today, we'll soon be like Japan once was. Japan is completely reversed—they used to make the trash, now they make the finest quality products. Our quality is going down.

Are we in bad trouble then?

LARSEN: The U.S. has a technological edge and a managerial and marketing edge which will keep it in the front ranks for a while longer yet.

Do you agree, Mr. Marks?

MARKS: Not entirely. I get the feeling that our lagging role in exports may well be offset by our thrust in multinationalism. I might be going out on a limb on this, but I believe the day may come when 250 or 300 international corporations may be blowing the whistle and making the decisions behind the scenes for governmental relationships. And I'm not sure that we would be any worse off than we are now. We might be considerably better off.

ROUGH SAILING FOR THE CAPTAINS OF INDUSTRY

**WHO DID HOW WELL
HOW BADLY
RELATIVE TO RELATIVE COMPANIES
IN 1970?
SINCE 1965?**

**THE FORBES
23RD ANNUAL REPORT
ON AMERICAN INDUSTRY**

DUE JANUARY 1, 1971

Anybody can ride the crest of the wave when times are good. It's how corporations handle themselves in rough weather that counts. Like *this* year, for instance. How did America's leading corporations perform in the down-cycle of 1970? The FORBES 23rd Annual Report on American Industry will give you the answers—on January 1, 1971.

It will all be there in black and white, and, we hope, not too much red. More than 625 leading American corporations will be ranked and evaluated in three ways: by their profitability, their growth, and their stock market value. The three basic considerations that matter most in the world of business, in good years or bad.

But there's more to consider. How a company performs over a one-year time span—*any* one-year time span—isn't completely indicative. The record over the long run must be examined. So the FORBES Annual Report on American Industry takes an average of each company's performance over the past *five* years, averaging out the down-cycles with the up-cycles, to reveal the underlying long-run trends. What emerges is a reliable record of performance over the long haul. In regard to profitability. And growth. And stock market value.

But even this doesn't tell it all. Top management wants to know how efficiently it has operated as compared to competitors within the same industry. Especially this year, when most companies in the same business have found themselves pretty much in the same boat. So our Annual Report Issue will tell about the competition. It will focus on more than twenty important industries, and rank the leading companies in each, according to the really significant yardsticks. In short, the *meaningful* measurements of a company's management.

This 23rd Annual Report on American Industry, along with our May 15 Annual Directory Issue, will be one of the two major FORBES issues of 1971. Every business leader who wants to remain one will study it. Which means that the January 1, 1971 FORBES will be the perfect place to tell the important world about your company, perhaps to show them where you're headed at the beginning of a new year, and maybe even to indicate how your corporate ship performs, relative to its competition, when the going is rough.

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Forbes: capitalist tool



Words, Words, Words

Everyone—most of all the accountants themselves—talks about making accounting more meaningful to the public. The talk, however, does not seem to be producing worthwhile action.

IT TOOK the accounting profession close to ten years to make up its mind on how to standardize merger accounting, and, even now, the profession is not at all happy about what it has supposedly agreed on. In the Aug. 30 Sunday issue of *The New York Times*, Arthur Andersen & Co.'s senior partner, Leonard Spacek, attacked the Accounting Principles Board's dual decision to leave pooling accounting virtually intact and to allow goodwill arising from purchase on the balance sheet. Says Spacek, "These opinions represent a complete failure by the accounting profession. . . ." Two weeks later, Lybrand, Ross Bros. & Montgomery partner, Philip L. Deffiese, defended the decision.

The conclusion is inescapable: Everyone agrees that more must be done to make financial reporting more meaningful. But no one seems able to agree on what to do. The industry has labored for nearly a decade and has brought forth a mouse.

Summing up a good deal of Wall Street opinion these days is Thornton O'Glove, a certified public accountant who writes a newsletter on accounting for the brokerage house of Scheinman, Hochstin & Trotta: "The accountants, and especially the Accounting Principles Board, have lost much of their credibility with me now. As far as I'm concerned, their opinions and signatures on an annual report are worthless. Since the auditor is selected and paid by management, are they truly independent?"

In 1960 the accounting profession, through the American Institute of Certified Public Accountants, commissioned Arthur R. Wyatt, then a professor at the University of Illinois, to do a research project on merger accounting. Wyatt concluded, after three years of study, in a report of over 100 pages, that pooling of interests should be largely abolished and that the goodwill resulting from purchase accounting was meaningless. So the CPAs set up another commission, this one to study the problem of goodwill. It was headed by George R. Catlett and Norman O. Olson, both of Arthur Andersen, one of the Big Eight accounting firms. Their conclusion was that the goodwill resulting from merger should immediately be written off the balance sheet and deducted from stockholders' equity.

What A Does to B

Academic as all this may sound, it has tremendous implications for corporate management and for the stock market. This, to a large degree, is because of inflation. As a result of inflation, many companies own properties that are worth a good deal more than their value as carried on the books. Also, partly as a result of inflation, many glamorized companies have had—and some still have—extremely high price/earnings ratios for their common stocks. These two facts create tremendous bookkeeping opportunities for acquisition-minded companies. A simple example shows

how: Let us say that Company A buys Company B for stock worth \$20 million, but Company B's book value is only \$10 million. Three years later, Company A sells B's assets for \$20 million cash. Under pooling accounting, Company A can report a profit of \$10 million; in fact, it merely sold the assets for what it paid. But the stockholders are led to believe that by some kind of synergism, A's management worked wonders with B's assets.

This is an extreme example, but it shows the kind of leeway merger accounting creates.

The exchange of high P/E stocks for lower P/E stocks creates other bookkeeping opportunities. Simple example: Company A and B each have 1 million shares outstanding and each earns \$1 a share. But Company A sells at 30 times earnings; Company B at only ten times earnings. As a consequence of this P/E discrepancy, Company A can acquire Company B's 1 million shares for only an additional 500,000 of its own. Thus Company A now has 1.5 million shares outstanding, 50% more than formerly, but its earnings are twice as great. On the new stock it can report earnings of \$1.33 a share, a 33% gain. As far as the outside world knows, great things resulted from the merger. Yet nothing changed except the bookkeeping.

Purchase accounting *vs.* pooling accounting offers other opportunities for imaginative bookkeeping.

Not only investors are involved in all this; the whole world of business



Rule Makers. These 18 gentlemen (shown assembled last July in Manhattan) comprise the Accounting Principles Board, rule-making arm of the official CPA trade group, the American Institute of Certified Public Accountants. The board's opinions, while not legally binding, are almost invariably followed by accountants. Of the members, eight represent the Big Eight

accounting firms, five are from smaller firms, three from major companies and two are professors of accounting. Clearly, the big accounting firms dominate, and their interests tend to be paramount—which leads critics to doubt that the board will ever get really tough with the big firms' corporate employers. APB chairman is LeRoy Leighton (above, center) of Main Lafrentz & Co.



Watching The Bookkeeper, 16th Century Style. Is there too much looking over his shoulder? Is his "independence" all it's cracked up to be?

is. For these bookkeeping options have unquestionably encouraged a good many mergers and a good deal of conglomeration in the past that would not otherwise have taken place.

So it has often been a case of the accounting tail wagging the corporate dog. Unsatisfactory? Of course it is, and the accountants concede the fact.

At one point the Accounting Principles Board did say that it would probably limit pooling to mergers where one company was at least one-ninth the size of the other. By August it had dropped that restriction. The board did decide that the goodwill resulting from purchase accounting should be written off. But it gave the companies 40 years to do it.

Why did the Accounting Principles Board, rule-making body of the accounting profession, keep weakening its stand on merger accounting? One reason was probably the intensive lobbying by the increasingly powerful Financial Executives Institute. The 6,988-member group is composed of the financial officers of corporations. Naturally, it represents the management point of view. The FEI telegraphed its local chapters urging them to take up the merger issue. Herbert C. Knortz, a member of the FEI and senior vice president and controller of the acquisition-active ITT, published articles opposing the new pooling rule in the *Financial Analyst's Jour-*

nal and *The Wall Street Transcript*.

Leonard Savoie, the former Price Waterhouse partner who is executive vice president of the AICPA, admits that the merger opinion was a "matter of compromise." The APB, says Savoie, came to its decision after hearing from more than 50,000 investment bankers, corporation heads, auditors, financial analysts and government officials.

Savoie sees this as a democratic process. But how "democratic" can it be when the accountants are not truly independent agents but in fact are acting almost as employees of the companies they audit? With all the goodwill and integrity in the world, the accountant cannot be insensible to the demands and the interests of the men who pay his fees. In theory, it is the stockholders who pay the fees and vote on their contracts; in fact, it is the board of directors that decides. What is more, the contracts are renewed—or not renewed—annually. Certainly, the accountant doesn't enjoy losing a large account.

A fair statement of the way many managements feel was contained in a recent issue of the *Financial Executives Institute Bulletin*. Of other proposed accounting changes to make earnings reports more meaningful, the *Bulletin* said: "... we feel that the introduction of still another pro forma series would result in increasing complexity—which would confuse

readers of financial statements and make difficult an objective assessment of earnings trends."

What the financial officers are saying is: "Trust us." But recent history hasn't always justified such trust.

This is not the first time that the CPAs have bent to pressure from their customers, the big corporations. In 1962 they declared that the investment tax credit should be taken into net income gradually. This was a logical move, since the credit was associated with a long-term asset. It should not, ruled the CPAs, be used to hypo earnings in one single year. Many companies simply ignored the accountants' opinion. Two years later, the accountants meekly bowed to the pressure and rewrote their opinion, approving both methods. Thus one company building a \$100-million plant could take the \$7-million credit into net income in one year, while another might take \$700,000 a year over ten years. The investor could figure it all out.

The investment tax credit incident was embarrassing for the CPAs. But the merger accounting decision, coupled with more cases of misleading earnings reports, may actually prove damaging. For more people are realizing that the CPAs want to have their cake and eat it too.

The CPAs argue that they should set accounting rules for business, rules that presumably will aid and inform the public. But, in the next breath, the accountants say that management, not they, must make the judgments about appropriate inventory valuation, about when a sale should be recorded in profits, about how an asset should be depreciated. If an earnings-per-share figure is highly misleading, it is management's decision, say the accountants—so long, of course, as it is in "accordance with generally accepted accounting principles."

The Worst Yet To Come

Lee Seidler, a New York University professor writing an accounting newsletter for Equity Research Associates, thinks financial reports could get even worse: "Investors in the future may be faced with principles which more strongly reflect the wishes of management than the present ones."

In short, it is becoming increasingly clear that management, not the CPA, is in the driver's seat when it comes to financial statements. CPAs like to say that accounting is an art, not a science. Their critics rejoin that if art it be, the corporate treasurers are the artists. The auditors merely sign the painting—and collect their paychecks.

An extreme judgment? Perhaps. But recent events have done little to dispel the impression. ■

One Hand Giveth . . .

In financial reporting today, what the balance sheet giveth, the footnote frequently taketh away. Take Great Southwest, the once high-flying realty outfit.

WHAT, another horror story about accounting?

Yes, but this one's a classic.

A scant year or so ago, Fort Worth's (Tex.) Great Southwest Corp. was one of the hottest companies in the real estate industry. Its common stock had a total market value of \$1.2 billion and sold at over \$40 a share, up from the equivalent of \$2 just a couple of years before. GSC produced a beautiful growth record, certified—in accordance with generally accepted accounting principles—by the distinguished accounting firm of Peat, Marwick, Mitchell & Co. For 1969 GSC showed profits of \$34 million—\$1.08 a share—on revenues of \$144 million.

Great Southwest, in case you don't know, was 90% owned by a subsidiary of Penn Central Transportation Co. It was partly because of GSC's reported profits that PC was able to report ordinary income of \$4 million last year even though it lost \$193 million on its basic transportation operations.

As it now turns out, GSC was almost as messed up as its parent.

A famous financial man once said, "There are two kinds of money, cash and the other kind; cash is worth ten times as much as the other kind."

GSC's money was "the other kind." Fully half of last year's profit (\$17.5 million) was not cash but a paper gain from the sale of GSC's Six Flags Over Texas amusement park near Fort

Worth. The park was sold for \$40 million, but only \$1.7 million of that was in cash; the balance is due in annual installments through the end of this century.

What was the object of this complex deal that brought in very little real money? Said one Wall Street analyst, "The pressure was on, I'm convinced, to produce a big profit that Penn Central could consolidate in its own statement. By creating the impression they were making waves in real estate, it took some of the curse off the railroad's performance."

As a result of this and other wheeling and dealing, GSC's balance sheet showed a huge jump in mortgages and notes receivable last year, from \$31 million to \$78 million. A good part of these receivables were counted already as profits even though the money wasn't yet in the till, and some of it wouldn't be for 34 years; in fact, barely 3% was due in 1970.

Receivables? Technically, yes, and almost any accountant would have so certified them—in accordance with generally accepted accounting principles. But hardly *quality* receivables.

That's not all. PC had an agreement with GSC whereby the latter was charged an amount equal to 95% of the taxes GSC would have paid if its return were not consolidated with PC's. PC showed this as a receivable; GSC showed it as money owing to PC. But what changed

hands was paper, not money. PC got 1.4 million more shares of GSC common for this and other GSC debts to it; GSC used the rise in the stock's market price to beef up its capital surplus by another \$25 million. When the stock price collapsed, both were left with fists full of paper.

Great Southwest, in spite of the big numbers in its financial reports, was nearly as strapped for cash as its parent. A former GSC officer comments: "Practically no cash was coming in." Meanwhile, long-term debt shot up from \$41 million to \$177 million between 1967 and 1969; the company floated six classes of preferred issues, plus options and warrants. GSC had to meet \$43 million in maturing notes last year.

Lots of Fine Print

The 1969 balance sheet has to be seen to be believed. There are six pages of footnotes vs. just three pages for the balance sheet and earnings statement. The footnotes show a hodgepodge of short-term and long-term notes, high-interest loans (12% and 13% face value), loans against GSC's furniture, even advances on future construction loans.

With most of his \$392 million in assets pledged, GSC Chairman (now President) Angus Wynne Jr. made one last try to raise money in New York and Europe last spring. The Penn Central bankruptcy put an end to that. Shortly after the parent filed for reorganization, Wynne announced that GSC itself had a "great liquidity problem" in meeting the notes it had coming due this year. By September GSC had begun selling off some of its choicest properties, including major parts of the Macco Corp. subsidiary. It also suspended payment of its preferred dividends.

Asked about the handsome-looking figures that his firm certified for Great Southwest—in accordance, of course, with generally accepted accounting principles—Peat, Marwick, Mitchell partner Irving Cruce points out that the facts were all there in the footnotes: "The statements are within the parameter of both SEC regulations and opinions of the Accounting Principles Board." Adds PMM partner George Shepherd: "We certify the figures. It's not our job to interpret them." And he's right. Peat, Marwick, Mitchell did what any reputable firm would do. But that's really a way of saying that the main balance sheet and earnings statement alone weren't so useful to the investor.

Maybe what the accountants need is a way of distinguishing between the two types of money: cash and "the other kind." ■



Fun And Games. Great Southwest showed big profits on its amusement parks in Texas and Georgia. But it wasn't so amusing in the end.

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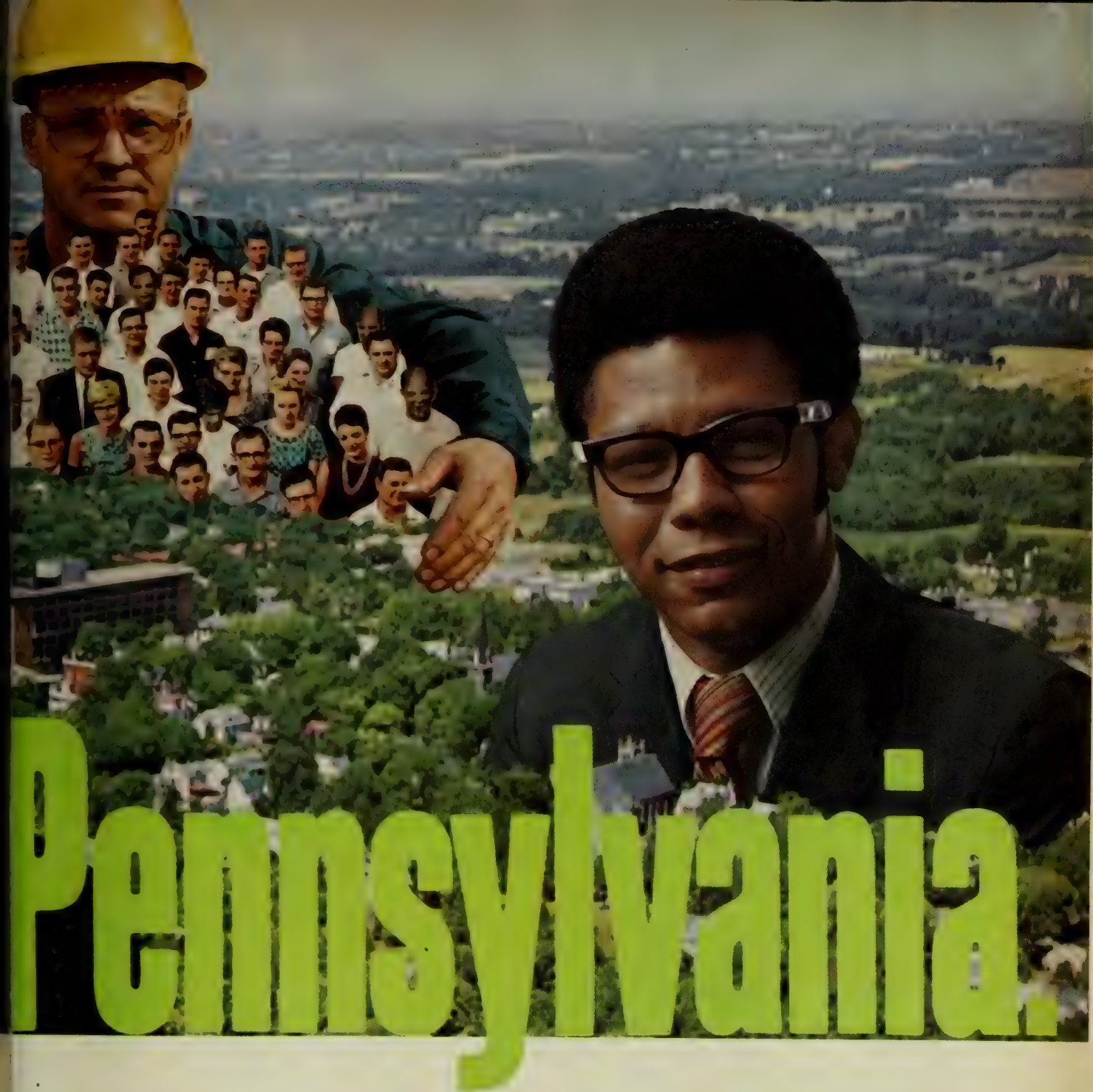
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Faces Behind the Figures

U.N.U.?

SURROUNDED at dinner recently by a few members of his family—and some old friends from First National City Bank—Hong Kong tanker magnate C.Y. Tung bubbled over with enthusiasm for his latest ship, Cunard's old *Queen Elizabeth*, for which he successfully bid \$3.2 million in Philadelphia last month.

The down-on-her-luck *Elizabeth* was saved from the scrap heap to become a floating university, pos-

sibly under United Nations auspices. This month she leaves under her own power for Hong Kong and Singapore to get a \$4.5-million facelift and overhaul. To save fuel, one of her engines will be shut down forever; but the other two provide an adequate 17 knots.

The only other question is her name. When FORBES asked C.Y. what it would be, he replied, "I have a little joke about that—Seawise University." If you're slow on puns, spell it C.Y.'s University. ■



C.Y. Tung

The Milwaukee Slugger

BACK in the 1950s Robert W. Haack, now president of the New York Stock Exchange, used to run into Lewis D. Thill, a feisty ex-Congressman, on the streets of Milwaukee, Wis. The meetings were friendly enough, but Thill was already nursing a grudge towards what Haack represented.

Haack was then a partner in the Milwaukee brokerage house of Robert Baird & Co., which holds a seat on the New York Stock Exchange. Thill was upset because his little over-the-counter firm, Thill Securities Corp., had to refer all business in Big Board stocks through member firms like Baird. Because the exchange rules forbid rebates to nonmembers, the member firms collected the full commission; Thill got zilch or at best a small premium. Some months, Thill says, his books showed "half the trades were exchange issues for which we didn't get a dime." To make matters worse, member firms were wooing away his best customers, promising cheaper transactions.

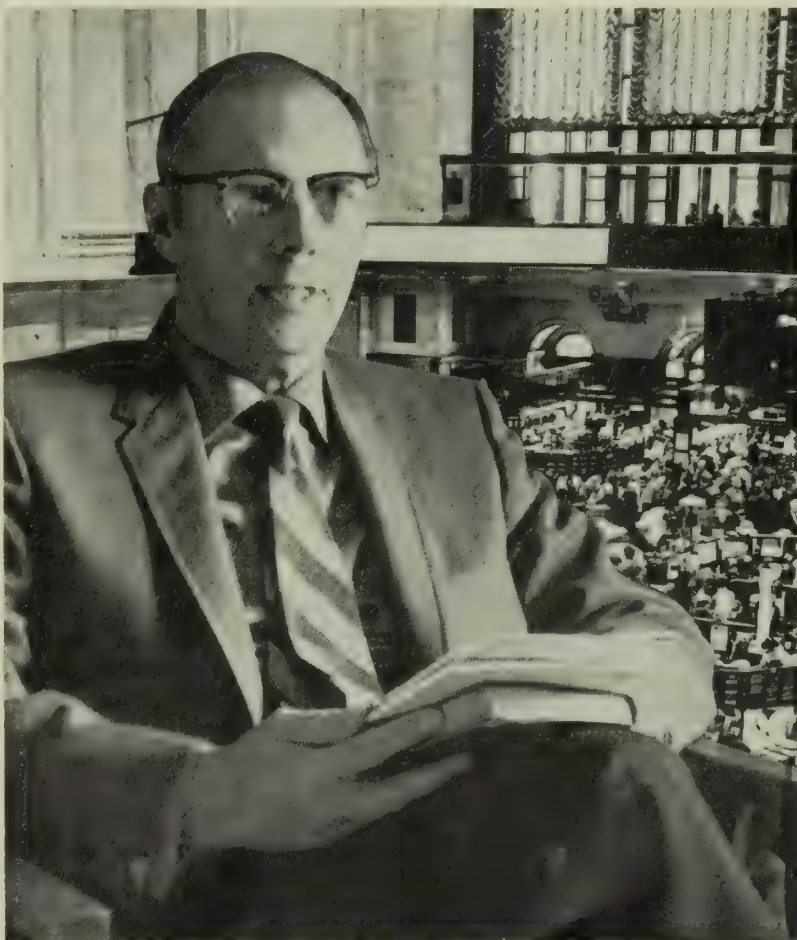
Thill took his grudge to court in 1963. He charged that the exchange violates the antitrust laws by limiting Big Board trading to its 1,366 members. (Since brokerage houses often have several seats, there are only about 600 so-called member firms.) Thill filed the suit on behalf of all nonmembers, and asked treble damages of \$21 million for himself. The case seemed only a nuisance action when Haack arrived in New York to lead the exchange in 1967. But now, with Wall Street troubled by a spate of bankruptcies, Thill's grudge is haunting Haack.

A federal appeals court in Chicago has handed down a decision

backing Thill. The antitrust laws in some instances may apply directly to the exchange, despite Securities & Exchange Commission regulation, wrote Judge William J. Campbell: "The power to adopt rules relating to the relations of members with nonmembers, does not in and of itself place such rules outside the reach of the antitrust laws." And Campbell invited the

SEC and the Justice Department to come in as the case goes back to a district court for a full trial. If Campbell is sustained, Thill could burst the bars of the NYSE.

Thill, now 66, is no longer in the business, having quit stock brokering for real estate in 1964. But he's still interested. "If they really open up," he says, "I would like to get back in." ■



Thill of Thill Securities

Back Home

FRESH from the triumph of having presided over the National Aeronautics & Space Administration's moon landings, Dr. Thomas O. Paine is back at his corporate alma mater, General Electric. He resigned from his \$42,500-a-year position as NASA administrator just as triumph was turning to disappointment in the form of massive budget cuts. At GE, he will be group vice president for power generation, a job involving around 20% of GE's \$8.4-billion revenues. Among his problems: putting the big nuclear power operation solidly in the black. Besides the invaluable experience gained at NASA, Paine, 49, got an incidental dividend from his two-year stint away from GE: "When I first went to NASA," Paine relates, "of course, I had to sell all my GE stock. It was in the 90s then." It was selling around 80 recently. ■

Paine of General Electric



Roth of UAL

Better Mediocrity Than Disaster

IRVING ROTH retired last May as chief of the Economics section of the Civil Aeronautics Board and stepped into UAL, Inc. as a vice president. UAL's main business, United Air Lines, will be lucky to reach the year's end without a sizable loss. As Roth puts it, "We'll have to work hard to make 1971 mediocre."

A Roth idea may well keep 1971 from being a good deal worse than mediocre. It calls for United, TWA and American to reduce the number of flights on certain major routes, including New York-West Coast, Washington-West Coast and Chicago-West Coast. Result: a reduction of about 15% in theoretical capacity on these routes. While still at the CAB, Roth had espoused the idea in an interview with *FORBES*, and United is now pushing it from the industry side of the table.

There is nothing an airline's president hates worse than an idle jet. Costing from \$10 million to \$25 million each, the big jets continue to burn capital dollars at a furious rate even while idle. However, the airlines' presidents hate even worse to see planes two-thirds empty. Admittedly, it is a hard pill for the industry to swallow. Traditionally expansive, airlines men rarely thought in terms of contraction.

The three airlines figure they could save \$50 million next year from these capacity reductions—which is much more than the three of them put together can hope to make in 1970.

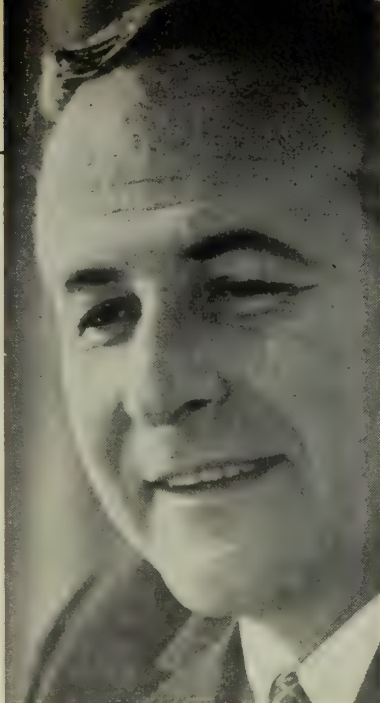
Apparently both Congress and the CAB favor the scheme. And why not? It's a way of aiding the hard-pressed airlines without spending a dime of government money, and at the same time without seriously inconveniencing the traveling public.

Anybody want to buy or lease a Boeing or Douglas jet? ■

Following His Fancy

WHILE OTHER COMPANIES are deconglomerating, well-tailored Clayton L. Rautbord, president of American Photocopy Equipment Co., has been conglomerating. Two years ago his office-equipment company bought Magnum Marine, a boat builder. Last year he added Bosworth Marine (houseboats) and Newport Homes (mobile homes) last month Cavalier Industries (trailers and truck campers).

But Apeco's no budding conglomerate; Rautbord is just keeping his capital busy. Since the company is in good shape and the family owns 24% of the shares, he sees no reason why he shouldn't keep it busy in things that interest him. He en-



Rautbord of Apeco

joys racing his own Magnum 27-foot, three-engine outboard ocean racer. Mobile homes interest him too: He was an original investor in Skyline Corp., a very hot mobile home company last year, and when he saw Newport's plant, he says, "I fell in love with it."

Shouldn't Rautbord be worried about International Business Machines invading the photocopying business? He says no. IBM is moving into the high-priced end of the business where Xerox reigns. Apeco concentrates on the low-priced convenience end of the business. And then Rautbord points to his results in fiscal 1970, a poor year for most: sales up around 31% in the first nine months, earnings up smartly 36% to \$3.4 million. ■

En Garde!

STOCKY James D. Wolfensohn, 36, a 1956 Australian Olympic fencing team member, faces only one problem as the new president of British-owned, Wall Street-based J. Henry Schroder Banking Corp. In a way, he's a generation too late.

Time was when the smallish (over \$400-million assets) Schro-

der had little competition in helping U.S. corporations do business abroad. Then multinationals became the vogue—and while Schroder reaped the benefits, it also found itself surrounded by competitors. Soon not only Chase, First National City and Bank of America, but also little-known banks from the Midwest and elsewhere, were hunting for business from Paris

to Perth, from Tangiers to Tokyo.

But now, relying on specialized services and experience to maintain its share of the increasing action, J. Henry Schroder is turning the tables by drumming up U.S. domestic business—and Wolfensohn's not too late for that.

No stranger to the U.S. (Harvard Business School, 1959), Wolfensohn is equally comfortable with U.S. corporations. As managing director of Australia's Darling & Co. (about 40%-owned by Schroders, Ltd., London) Wolfensohn assisted in Australian mergers for the likes of General Foods, Continental Oil and W.R. Grace. Until recently chairman of an Australian venture capital corporation, Wolfensohn is a lawyer and former partner in a leading Australian brokerage and underwriting house.

Fresh off the *Queen Elizabeth* last month, Wolfensohn and Schroder's new chairman, Pittsburgh-born John I. Howell, took a brisk walk to inspect the company's new building now under construction. One of the southernmost skyscrapers in Manhattan, it has been a pet project of Howell's.

"We'll be doing here what we've been doing around the world," Wolfensohn said, nimbly dodging through the construction debris, "specialized services in joint ventures, money management, real estate and investments."

Is he still fencing? "Yes," said Wolfensohn, while surveying the building with a steady eye, "but in a different league." ■

President Wolfensohn and Chairman Howell of Schroder Banking



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With futures, it's a different story. You don't need any storage space. And you don't tie up nearly as much of your working capital. (You can buy or sell futures on a margin of only about 10 percent. And most of that can be in the form of Treasury Bills on which you continue to collect interest.) Finally, there's almost never a shortage of sellers in the futures market.

Think what all that means. Instead of being at the mercy of the market, you can take the initiative and buy futures whenever you think the price is right. Then if prices go up, you can sell them at a profit.

You'll still pay more for the actual commodity. But you'll have an additional profit to offset your additional cost.

But what if prices go down? In that case, you'll lose money when you sell your futures. But—and this is a critical point—the futures loss will be just about offset by the lower prices you'll pay when you buy the commodity.

In any event, futures enable you, in effect, to lock in what you decide is a good price months before you need the actual commodity. That makes it a lot easier to plan ahead and establish realistic price schedules.

How futures can help your company do a better job of inventory control and marketing.

When you carry a big commodity inventory to feed your production process, you're also shouldering a heavy price risk. A plunge in commodity prices could put you at a severe competitive disadvantage.

Properly used, futures can help protect you from that risk. Whenever your judgment tells you that prices are headed down, you can sell futures

against your inventory. If prices do fall, you can earn a profit by buying futures at the new, lower levels. The profit will probably be large enough to offset your loss on the inventory.

That same technique may help you in marketing. You can use it if you sell one of the 51 commodities that have a futures market. Or if the price of your product moves in step with the price of a traded commodity.

When you're in one of those positions, futures enable you, in effect, to lock in what you decide is a good selling price—even before your product is ready for market. You do this by selling futures whenever you feel prices are attractive. If prices then fall, the profit you earn on your futures will help to offset any drop in your sales income. The net effect would be to raise the average selling price of your product.

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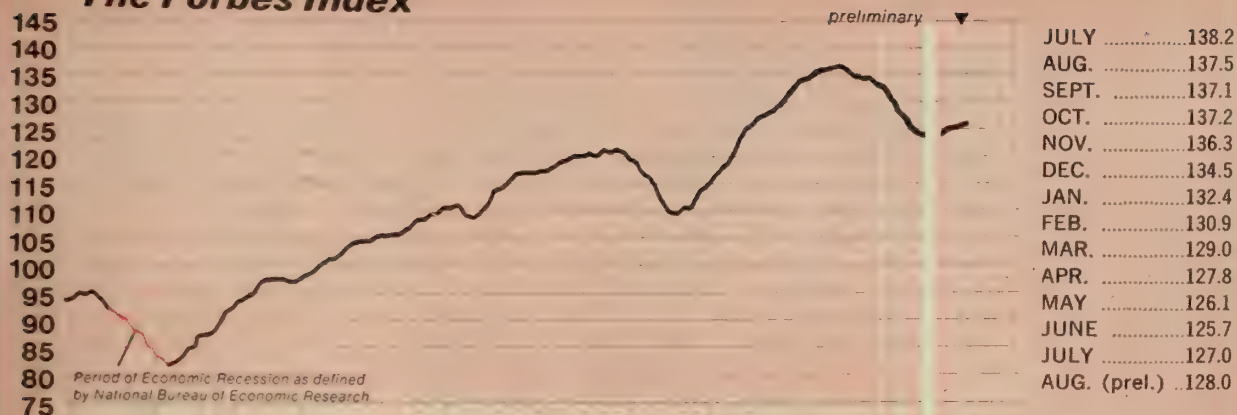
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Production

- How much are we producing? (Federal Reserve Board Index of Industrial Production)
- What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders of durable goods related to inventories)
- How intensively are we building? (Dept. of

Commerce privately owned housing starts) Consumption

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

Income

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



Vogues And Values

FEW INVESTORS actually invest according to abstract concepts. Security choices usually are determined more by semiemotional personality characteristics than by the application of pure logic or adherence to principle. In spite of this, most people seeking capital gains can be put in one of two categories: those who seek a value, and those who try to ride a trend or a vogue. The value-seekers try to buy unpopularity and cheapness on the theory that in the long run the market will recognize and reflect fundamentals of worth. The trend followers try to buy popularity and try to exploit vogues. To them fundamental value and worth are secondary so long as they get the desired price action. In practice most of us think that we attempt to meld the two concepts.

Neither in the May panic nor in the June-September rise, which to a large extent was merely a correction of the May action, were values outstandingly important in establishing prices. Pure supply-demand conditions determined price. Thus, as the market approached the 800 "supply area" in the DJI, there were many prices that

needed adjustment, some up and some down. It seems inevitable, therefore, that in the weeks immediately ahead there will be more selectivity and a much less uniform trend in prices. There will be more of an attempt to identify value and the lack of it; and trends and vogues will be harder and harder to exploit.

Unfortunately, however, among more active traders, especially performance mutual fund managers, there will be a continued effort to obtain relatively quick profits in "trend" stocks rather than to seek long-term appreciation in unpopular issues which are more attractively priced. We now have a generation of investment advisors and analysts who, in all of their rather short careers, have experienced an inflationary environment where speculation has been encouraged and investment has seemed to be for the birds. And few of us can completely isolate ourselves from what is happening all around us. Part of the game, too, is to understand what's happening, and how it is influencing what people do.

Success, it must be admitted, depends not so much on what you make as on what you keep—and there are many

performance seekers who in late years have not kept as much as the value seekers. In the stock market there's such a thing as trying too hard and making money too fast. Of course, most investors under 50 think this is a lot of applesauce. It most certainly is nonsense for that small minority of the unusually lucky who are specially endowed people; but it is infallible gospel for most of us, the great majority.

A Panic of the Shorts

Don't kid yourself about what has been happening recently. There was an unusual volume of belated and ill-timed short-selling in the glimmers in May, selling which should have been done in 1968, 1969 and early this year; and when the trend changed (as the market became overliquidated in the panic about liquidity) these shorts were hopelessly locked in. Much of the late August and early September rise was nothing but a panic of the shorts. The market always goes too low in the latter stages of a bear market just as it always goes too high in the latter stages of a big bull market. Some weeks or months after the final lows (or highs) are recorded, there is a sensational reversal. That's what we had in late August and early September.

The investment public has been put on notice, I think, that the biggest bear market since 1937-38 made its lows on May 26 at the intraday low of 627.46 in the DJI. In my opinion, however, we have not yet been told that a vigorous new bull market has begun. As this is written there has been about a 20% recovery in the

Mr. Hooper is associated with the New York Stock Exchange firm of W. E. Hutton & Co.

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Dow and the May decline has been just about cancelled out. This is quite a rally, and there is solid historic resistance to a further advance right now to much above 800.

There's always a question in my mind as to whether the news makes the market or the market makes the news. I suspect, however, that the news may not be quite so good in October as in August and September. There are indications that money is no longer being eased; that a tremendous amount of new financing will considerably increase the supply of new bonds and electric utility stocks; that the demands of labor will be depressing; that third-quarter earnings statements won't be as good as those for the second quarter. Certainly there will not be as many shorts to cover.

Assuming that the DJI goes to 800, a little higher or a little lower, I can see the possibility of a setback to somewhere around 710 to 725. I hope the reader will regard these figures as qualitative rather than arithmetical—because I think it is foolhardy to cut it too fine. I just think that this advance has to be consolidated, and that little will be lost by refusing to increase purchases with the Dow above 760.

Undervalued

Readers have been asking why *American Smelting* (25) does not act better in the stock market. This stock pays \$1.90 and probably will earn just short of \$4 a share this year. The company is appraised in the stock market at a price less than the market value of its holdings in Australia's fabulous Mount Isa Mines, giving no theoretical value to its American, Mexican, Canadian and Peruvian properties. I suppose the unfortunate political situation in Peru is a factor, and so is the weakness in copper prices (*American Smelting* is of course an important producer of copper). I suspect also that some of the stock which the company did not take in the tender exchange for General Cable may have come back on the market. I do think, however, that *American Smelting* common is one of the most obviously undervalued stocks, even though I despair of knowing when the public will buy it. You know AS has a very small funded debt.

I don't suppose there is any hurry to buy *Pan American World Airways* (11), but stories about this being another Penn Central look simply wild to me. Don't overlook the fact that this huge company's long-term debt is in especially good shape as to maturities and that its short-term debt problems are not large in relation to the size of the company or to its cash flow, which may reach around \$150 million a year

shortly. As regards equipment, it is in better shape with its 747s than any other line, and that should mean high efficiency in this company's long-distance routes. This is another chance to buy extreme unpopularity.

Still another extremely unpopular stock is *Anaconda* (around 22). The worst news about its large Chilean investment is out, and, like most mining companies, it has pollution problems. But the management has been placing great emphasis on the development of low-cost copper production in this country. It is a cinch that *Anaconda* won't act as well as some stocks over the near term, but the value is there. You may have to wait, but you are not buying overvaluation.

Out of Vogue

A good stock for the longer pull, which has not been in vogue recently, is *Texas Gulf Sulphur* (17½). This stock is way down in price and represents a company which, in my opinion, now is less than 50% sulphur. The management has been diversifying for years and now is in nonferrous metal mining in a big way as well as in phosphate, trona, potash, oil and gas. It has mining properties in various stages of development in Australia and British Columbia.

Something should be said about the *General Motors* (73) strike. If it ends in a few weeks, no great damage will be done to the economy; but a long strike, five weeks or more, would hurt many dependent industries. Most of the other automobile companies use some essential parts made by General Motors, and GM provides 50% of the market for numerous parts makers. This company is a huge hunk of the economy. Whatever happens will be only temporary, but this is a time when General Motors would be missed as a factor in general business improvement. Incidentally, I still like the stock.

Practically every oil man I know thinks that *Phillips Petroleum* (27) has not yet reflected and celebrated the company's discoveries in the North Sea. . . . If there is any one industry which is confident about its future over the next few years, it is the coal industry. . . . The large amounts of money being raised by the electric utilities through the sale of both bonds and stocks should assure the electrical equipment companies of good business over the next two years. That means business for *General Electric*, *Westinghouse Electric*, *McGraw-Edison*, *Combustion Engineering* and *Babcock & Wilcox*. . . . In spite of the punishment the shorts in this stock have suffered of late, I would avoid *University Computing* (around 24). ■

STOCK ANALYSIS

By Heinz H. Biel



On The Comeback Trail

By Labor Day such broadly based stock market averages as the S&P 500 had already regained more than one-third of their bear market loss. Considering that most of this was accomplished within a matter of a few weeks, such performance is impressive. Good investment-grade stocks are still *reasonably* priced, but they are no longer quite as *cheap*. It's one thing to favor GE in the 60s, but in the 80s it is somewhat less appealing.

I have not changed my opinion that the bear market ended four months ago, but I think it is time for a breather. A period of consolidation or perhaps a partial correction would seem appropriate at this stage. It would strengthen the foundation for a further advance later on. Any setback, however, should be welcomed as an opportunity to complete the re-investment program.

The stock market has chosen to ignore such clouds as the high tension in the Near East and uncertain duration of the GM strike. Instead it feeds on the clear evidence of a policy of almost overactive monetary easing by the Federal Reserve and the prospect of declines in interest rates.

A matter of concern is the deterioration of market leadership in recent weeks. It seems that the go-go funds are back in action. The return of this speculative and unsettling element may be a little premature.

Stocks To Consider

But, rather than blame Nixon, or tight money, or inflation, or Vietnam for our stock market losses, let us put the responsibility where it belongs: *on ourselves*. The truly disastrous losses are avoidable by just using a little diligence and common sense. A bear market such as we have recently experienced provides the comparatively infrequent opportunity to buy stocks of established and reputable companies at fair prices, giving the investor a chance not only to *make* profits but also to *keep* them.

One of the first stocks to emerge as a leader in the recovery was *du Pont*. It had not been a profitable investment for the past five years: Earnings were stagnating and the price/earn-

ings ratio had to come down to reflect the sad fact that *du Pont* was no longer a prime growth company. This adjustment now seems to be completed, and there are signs that the huge capital investments of recent years (over \$2 billion since 1965) will begin to pay off. At a recent price of 120, it was selling at less than half of its 1965 high (ex GM distribution) and at a sensible multiple of barely 16 times estimated 1970 earnings.

Equally deserving representation in a solid investment portfolio is *American Smelting & Refining* (26). Although its earnings tend to be more volatile due to price fluctuations in nonferrous metals over which management has no control, the stock has attraction because of the company's growing involvement in Australian mining ventures and other developments which hold great promise. Earnings for 1970 should be around \$3.50 a share. The indicated P/E of 7½ is on the low side, even considering the more speculative nature of the company's business. The \$1.90 rate provides a liberal return of 7.3%.

The strange marriage of Container Corp. and Montgomery Ward to form *Marcor* (26) seems to be working out surprisingly well. There appears to be a new dynamism which augurs well for the future. Even in a difficult year for retailers and container makers alike, *Marcor's* earnings are expected to hold up well, closely matching last year's \$2.10 a share.

North American Philips (23) has been slow to recover from its severe bear market plunge, reflecting disappointment over repeated downward adjustments of earnings expectations for the current year and some apprehension over the merits of its Rubella vaccine. This company is widely diversified, operating in the chemical and pharmaceutical, electrical and electronic fields. It derives technical support from its parent, the giant Philips Company of Holland, which controls about two-thirds of North American Philips (via the U.S. Philips Trust). Selling some 60% below its high of last November and at about eleven times probable 1970 earnings, NPH is an attractive, though more speculative, commitment despite the lack of earnings progress this year. ■

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Mr. Biel is a senior vice president of the New York Stock Exchange firm of Havenfield Corp.

STOCK TRENDS

By Robert Stovall



Asset Leverage Comes Into Its Own

IN RETROSPECT, this summer's powerful stock-market rally—23% on the Dow Jones industrials, 50% and more on many individual stocks—may mark the beginning of a broad new bull market which could last for several years.

The very speed of the advance contained elements of strength. It has left many professionals unusually liquid. A good many of them are still waiting for a second chance so that they can become aggressive buyers somewhere around last May's lows. They are what I call "hopeful bears." I suspect they are waiting in vain. A good many unlucky portfolio managers will be swapping jobs soon.

And it is not only the institutions that have uncommitted buying power. Individuals who buy on margin have seen their buying power greatly enhanced by the rally; with margins at 35%, every \$1 in paper gains creates more than \$1.50 in added buying power. The very important confidence factor has also improved as the big gains accompanied by expanded trading volume has mitigated

anxiety over internal market liquidity.

As far as the economy is concerned, liquidity still remains a problem and many individuals and individual companies are still in for trouble. Fears of a general crisis, however, have diminished. You can see the rising tide of confidence in the way investor interest has begun to fan out from unquestioned quality and has been rotating among laggard groups.

What should you look for as buying concentration spreads out from the highest quality stocks? Do not, repeat not, expect things to go back to the way they were in 1967 and 1968. You can forget about the kind of situation where "pooling of interest" aided the "management" of earnings. Forget, too, about the nursing home, franchising and casino operators. In my opinion, you should look for situations where solid assets have, for one reason or another, yielded below-average return in recent years.

I'm saying that the honest employment of assets in a business to produce goods more efficiently is coming back into favor. And that the wild use of leverage and bookkeeping tricks

to buy volume has been discredited.

In short, I am recommending stocks of companies who can work their assets hard rather than of companies who spread them thin. The chemical, paper, aluminum, petroleum and cement industries are examples of what I favor. These are industries where, normally, it takes more than \$1 in assets to generate \$1 in sales. Such industries have high breakeven points, and they have been in trouble recently because idle capacity and sluggish prices have made for a low return on assets.

The point is that the economy is turning in favor of such companies. As business picks up, their built-in leverage will work in their favor. As money costs come down, they can go ahead with more of the kind of capital spending that cuts labor costs.

Only those companies that are financially strong will be able to take advantage of this changed situation, because while money is becoming available again, it is not becoming available to just anybody. This, too, will help the stronger companies, since the weaker ones won't find it easy to borrow money. At the same time, the kind of expansion that has kept capacity ahead of supply will certainly slow down; capital spending, overall, has already peaked.

While all this is going on, the steady long-range increase in demand continues and may even pick up speed. Demand will begin catching up with capacity. The beneficiaries? Those companies with access to cap-

A guest columnist, Mr. Stovall is a partner in the NYSE firm of Reynolds & Co.

A Spectrum of Asset-Leveraged Groups

	Recent Price	Discount from 1969-70 High	1970 Est. Net	Per Last 12 Mos.	1969 Net	Ind. Div.	Yield	P/E on 1970 Est.	1969 Net Plant As % of Tot. Assets	1969 Sales Per \$1 of Gross Plant	1969 Sales Per \$1 of Invested Capital
STEEL											
Armco Steel	20	40%	\$2.40	\$2.68	\$3.01	\$1.60	7.9%	8.5X	48%	\$0.88	\$0.98
Bethlehem Steel	22	39	2.40	2.82	3.56	1.80	8.1	9.3	60	0.63	1.15
CHEMICAL											
Diamond Shamrock	17	53	1.50	1.48	1.54	1.00	5.9	11.2	59	0.72	0.96
Pennwalt	27	59	1.90	1.48	1.81	1.20	4.5	14.0	37	1.49	1.53
Rohm & Haas	68	43	4.75	4.93	5.47	1.60	2.4	14.3	47	0.91	1.17
Union Carbide	39	17	2.80	2.90	2.99	2.00	5.1	13.9	55	0.67	1.03
CEMENT											
General Portland Cement	25	4	1.45	1.41	1.36	0.80	3.3	16.4	61	0.56	0.95
Lone Star Cement	23	22	1.75	1.80	1.98	1.00	4.6	13.2	64	0.60	0.91
PULP & PAPER											
International Paper	34	26	2.15	2.53	2.59	1.50	4.4	15.8	52	1.11	1.19
Scott Paper	26	26	1.80	1.75	1.75	1.00	3.8	14.4	56	0.90	1.14
SYNTHETIC FIBERS											
Celanese	56	22	4.50	4.94	5.41	2.00	3.3	13.6	54	1.39	1.01
ALUMINUM											
Reynolds Metals	27	40	3.40	3.34	3.08	1.10	4.1	7.9	55	0.64	0.58

ital for modernization—and those with huge investments in plant and equipment. All this won't happen overnight. There is a lag, and overexpansion may be a problem into 1971, reflecting new plant starts in 1969.

But once this operating leverage starts operating in their favor, these capital intensive industries should be in good shape for a long time, for they won't have to worry right away about new competition: You can't build new plants overnight even if you can raise the money.

Favored Stocks

To get specific, I'll list some of the stocks I like in this capital intensive category:

Despite an earnings downtrend this year, *Rohm & Haas* gives the investor excellent positioning for the expected revival in automobile production and construction activity. *Diamond Shamrock* and *Pennwalt* both fall in the turnaround category and are interesting on a statistical basis as well. Perhaps more good analysts have broken their lances on *Union Carbide* than on recommendations of any other major chemical producer but the turn may finally be at hand; the company's latent earning power is probably some \$2 a share above the current rate.

Lone Star Cement derives 25% of its sales and 40% of its profit from Latin American markets, the balance coming from national distribution. *General Portland Cement* serves the Southeast and Southwest. When the next building boom comes, these companies should find cement industry oversupply problems behind them.

International Paper is the largest papermaking organization in the world and is basically a commodity producer. Management has bestirred itself to utilize the enormous asset base, including 7.8 million acres of land. *Scott Paper* concentrates on consumer paper products, which are creatively merchandised. Scott has brought numerous new products to market in recent years.

Representative of the leading aluminum issues, *Reynolds Metals* is currently priced at a grotesquely low statistical evaluation relative to past performance. This is a symptom of widespread belief that worldwide additions to aluminum capacity will put eventual pressure on ingot prices. The cancellation of just a few plant additions could change this prevailing attitude. *Armco* and *Bethlehem* are two steelmakers possessing gee-whiz fundamentals in terms of new capital additions per share, operating leverage and technological advances. In the table (left) are some statistical highlights of these favored stocks. ■

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Net income	\$ 3,206,142	\$ 2,429,713	\$ 1,385,261	\$ 512,272	\$ 185,552
Retained earnings	\$ 7,128,957	\$ 3,922,815	\$ 1,493,102	\$ 499,047	\$ 117,435
Earnings per common share after allowing for preferred dividend ...	\$ 0.53	\$ 0.42	\$ 0.25	\$ 0.10	\$ 0.06
Net assets per common share	\$ 3.05	\$ 2.52	\$ 0.52	\$ 0.22	\$ 0.13

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CHAIRMAN'S CHAIR

By Fred C. Foy



Some Advice On Stocks From A Nonstock-Market Man

I'M CONVINCED that New York bankers, financial and stock-market people tend to commute between Cloud Nine and a deep sea of pessimism.

Recently the editor of *FORBES* asked me, "Do you think we're going on from this recession into a real depression? What do business people in the hinterland think?"

The question had never even occurred to me. It astonished me. In Pittsburgh, we're busy making and selling goods. We've felt the recession enough to cut some fat out of costs—we'll be better off for it. But we aren't really worried.

And then I realized why this question was so much on his mind. He had been talking to too many other New Yorkers, particularly in Wall Street. I've learned that bad news causes my banker, economist and business friends in New York to sink into a mutually fed, mutually magnified melancholy. The more they talk to each other, the worse conditions seem.

Let's see how bad today's recession really is. In mid-August *The Wall Street Journal* reported that first-quarter corporate profits were off 8%, but second-quarter profits only 6%. Many companies' earnings are ahead, not behind. Is this a depression, declines of 8% and 6%? Hardly.

Sales have fared better than profits. Many companies have been even with or above a year ago in both quarters. Unit and overall labor costs are up, due largely to recent high-labor-cost settlements, but most companies are taking action to cope with them. Unemployment figures are up nationally, but there are more people employed than at any time in history. I have talked to business heads across the country. Few see this as a serious recession; I have yet to find a single one who sees it as the first phase of a depression.

Of course, things are different in Wall Street. Stock-market prices have slumped. Market volume is way off, unemployment way up. Some investment houses are in serious trouble, all are hurting. But Wall Street is a small,

specialized segment of the economy.

Looked at from the viewpoint of the men who run the businesses and produce the goods, you can come to one conclusion: While stock prices have declined, the values behind the sounder common stocks have not.

The Favored 20

In *FORBES*, Aug. 15 issue on page 68, there is a list of 1969's 20 stocks most traded in odd lots, presumably those liked best by individual investors. Over an 18-month period ended May 26, 1970, individual prices of these stocks declined by 25% to 78%, a tremendous erosion. But values? During the same period, profits of six of the 20 companies increased.

Twelve* of these 20 stocks are rated either A+ or A by Standard & Poor's. Of these, five had increased earnings during the period. Of the others, only one reported profits off as much as 13%. Yet the price of every one of these stocks dropped by at least 25%; the largest by 50%.

So what happened? That gets me back to New York, the so-called economic, business and financial nerve center of the nation. Its bankers, analysts, economists are in constant touch. Bad news is everybody's news at once. From New York it radiates over a network of wires and printers. This flow of magnified tribulation breeds timidity and caution across the land.

For example, a hard-working young Pittsburgh broker said to me recently, "I really can't recommend anything but bonds to my customers these days." Why? What's wrong with good-grade common stocks?

There are dozens of stocks which have paid uninterrupted and steadily increasing dividends for years, dividends covered two or three times by profits which have decreased only moderately or not at all. These stocks are selling at prices unbelievably low compared with a year or so ago. How can one lose with such stocks?

Let's go back to those 12 A+ and A rated stocks. Eight of the 12 at recent prices yielded between 6% and

Mr. Foy, a guest columnist, has retired as chairman of Koppers Co. He joined the company in 1948, became president and chief executive officer in 1954, chairman in 1955.

*The twelve: AT&T, Eastman Kodak, General Electric, General Motors, General Telephone & Electronics, Gulf Oil, IBM, Standard Oil (Calif.), Standard Oil (N.J.), Texaco, Union Carbide and Xerox.

7%. One could be bought for 25% of its last year's high; the other 11 range from there to 50% below. All but one of them sold for eight to 12 times earnings. Does anyone seriously think that an 8% or 10% bond will return a greater combined after-tax yield over ten or 15 years than stocks like these?

But, you say, somebody must know something. One reason for such declines, I suspect, has nothing at all to do with value, but with the messing around of the money managers.

Two years ago growth was the golden goal. Over 400 mutual funds and two or three times as many banks, insurance companies and pension funds were milling around in the market, buying and selling, watching each other and being watched.

Prices and ratios kept climbing until someone got the idea that maybe business wasn't going to be so hot in months ahead. All of a sudden funds and institutions decided that prices were too high and scrambled to unload. The money managers strove to be ahead of the trend. Or were they breeding it without meaning to?

Funds sold stock, institutions sold stock, people sold stock, the Dow hit the skids. And there was no reason for it at all because neither business nor the nation has been hurting that much. Practically no dividends have been cut among solid companies; with a few exceptions, earnings are healthy even where they are off.

Look at the Figures

There used to be a saying that good common stocks bought and held were bound to be profitable over the long haul. Maybe that old saying wasn't so dumb.

Certainly the 12 A+ and A rated stocks can be considered "good common stocks." Suppose instead of following some hotshot money managers, you had bought these stocks and put them away? Look at the figures:

One hundred dollars invested in these 12 on June 30, 1962 would have peaked at \$209 sometime between then and June 30, 1970. Only 16 of some 450 mutual funds did as well.

In the recent market slide, \$100 in each of these same 12 stocks decreased to \$65.34 between Nov. 29, 1968 and May 26, 1970. Only 59 mutual funds did as well.

My conclusion is this: A simple faith in good common stocks can often produce as good investment results as hyperactive money management. I'm not disparaging New York and Wall Street, but don't listen to Wall Street exclusively. It didn't have all the answers when stock prices were sky-high; it doesn't have them all now when prices are way down. ■



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...the company's annual growth rates for sales, cash earnings and net income per share over various time periods.

...or what the cash earnings per share may average for the period 3 to 5 years from now?

...the company's debt and prior dividend obligations?

...whether company insiders have been buying or selling on balance? ...and what mutual funds have been doing in the stock?

Can you objectively appraise how the stock is likely to perform in the market (1) during the next 12 months... (2) three to five years from now... (3) beyond five years from now?

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OVERSEAS COMMENTARY

By George J. Henry



Can Stocks Protect You From Inflation?

READERS' LETTERS sometimes provide clues as to what may interest others, and they are occasionally responsible for articles on specific subjects. A letter recently contained the following two questions:

"What has been the historical effect upon the value of stocks in this and other countries when inflation starts, when it is in progress, and when it is running wild?"

"What would be the best place to invest funds if one were to know for certain that the American dollar was to be devaluated 50% one week hence?"

Wow! What questions! And what it would require to give an intelligent and comprehensive answer. The subject matter is so broad that I wouldn't even have to admit that I am too lazy to do the necessary research and thinking; I could plead that at my age I haven't got sufficient years left to complete a project of this magnitude. However, the questions are provocative, and perhaps I will be forgiven if I throw around a few ideas which may help to clarify some people's thoughts.

Inflation is not, as is generally thought, a malaise per se. Rather, it is a term describing symptoms which can be attributed to a number of divergent, though related, diseases. The classic inflation in Germany and other Central European countries in the early Twenties could be described as printing-press inflation, where money was being printed at ever-increasing rates without any offsetting increase in productivity. More recently, on several occasions we have experienced a wage squeeze inflation where demands for increased wages were not offset by increased productivity, causing temporary price-increase spirals. (Most recent experience shows that the definition of inflation as "more and more money chasing fewer and fewer goods" is not necessarily true.)

That most controversial and, in my opinion, greatest economist, Lord Keynes, taught us that in the long run we are all dead. He could have added that in the long run all prices tend to edge upward with a greater or smaller acceleration, always allowing for the fact that occasionally a pause and even a slight movement in the opposite direction can be seen. Most economists

and businessmen, if they are honest, would have to admit that they would rather see a small, gradual, continuous inflationary movement than anything else. By small, I mean on the order of a fraction of 1% a year, rather than the whopping 5% or 6% we have been experiencing. However much surging prices may hurt the modest pensioner, the business community at large and the general population are apt to benefit. Over the long run our experience is that productivity will increase at a faster rate than prices, and that net real income will benefit.

Disappointing

As to the behavior of stocks during inflation, this of course could be the subject of not one but several Ph.D. theses. A mere comparison of price levels would not be sufficient, as in many instances price movements would be affected by the relative growth or decrease in importance of individual industries as related to the entire economy. It is almost too obvious to belabor this point, but technical progress can and has destroyed some of the giants. Also, relative strengths of management in competing companies in the same industry can be of such great significance as to make such a study little more than an interesting but inconclusive intellectual exercise. One thing is certain. Those who were looking for protection of purchasing power in the early 1960s by ownership of industrial equities are, by and large, sadly disappointed at this particular moment. The operative phrase may well be "at this particular moment." It is entirely plausible that by a return to a greater degree of monetary normalcy and an increase in productivity, even within the next two years or so, stock prices in general could sufficiently advance to allow for a compensation above the cost of living.

To tackle the second question, a devaluation of such staggering size as 50% could not take place without it being obvious to a very large segment of the population. Consequently, the prevailing prices of the major available investments would have fully, or almost fully, discounted such a step, and it would be a little late to try and hedge. ■

The Funds

Birth Control

THE MUTUAL FUND business had a population explosion of its own in recent years. Since 1965 the number of mutual funds has increased from 376 to 846 (see chart).

Right now the hard facts of life are supplying their version of birth control for baby funds.

As of June, Woodpark Associates Fund was dissolved and its shareholders redeemed their \$2 million in shares. The fund had been started by advisers to the Rosenwald family of Sears, Roebuck fame. It counted on getting \$15 million from a former group of limited partners (see p. 74); launched last December, it got \$2 million.

Because the fund was a no-load, it did not have salesmen to help it grow. Because of the bear market, it could not perform spectacularly and grow from fame. The management fee of one-half of 1% of net assets was nowhere near enough to cover expenses and do what Woodpark felt was a good job for the fund. "It's just economically impossible to run a fund with \$2 million—your overhead is a great deal higher than your income," says Woodpark vice president Harry Rowney. "I don't see how anyone can run a fund on less than \$20 million. It should be \$40 million to be profitable. All small funds are doomed if they try to make it on their own." This is not necessarily true of funds that are adjuncts to large financial institutions.

Other tiny funds in trouble are not dissolving as Woodpark did. They are changing hands. Typical is PAW Growth Fund, Inc. PAW was one of many of the tiny funds that were started on principles that could only be successful during a bull market. It was a case of supreme overconfidence in the market and in PAW's management capabilities. The fund was founded by the brokerage firm of Philips, Appel & Walden, and run by mod, sideburned men, hair coiffed, suits well tailored; their offices were studies in glass with chrome-topped tables, plush white couches and thick-piled carpeting.

The fund cost its managing brokerage firm \$75,000 to register with the Securities & Exchange Commission and more than \$125,000 to support for one year. The manager

charged no management fee. Instead it would receive 10% of the profits. But if losses were accrued, the fund first had to recoup those losses before paying any future fee. Faced with recovering from more than a 7% decline in 1970, President James A. Walden realized it would be a long time before he got anything but expenses out of the fund. So PAW was sold to Jay W. Kaufman and Co. for \$75,000.

Jay Kaufman, who has just changed the name of PAW to the Kaufman Fund, claims that he can make out running a small fund because he "isn't one of those hundreds of idiots putting on a show for the public." He claims that he will use the services of many people who currently work for him on the fund, obviously at little extra cost, and he has "no fancy secretaries" to

raise his overhead. More importantly, Kaufman has just changed the fund fee contract, so that he will be guaranteed the conventional one-half of 1% management fee and have no penalty clause in case of a bad year. The big losers were the investors who initially put their capital into PAW. After paying an 8.5% sales charge to get into PAW, and after a 7.7% decline in net asset value, they lost 15.5% of their money; over one-third chose to redeem rather than stay with Kaufman. Those who kept their shares lost out on a provision of PAW's original contract, which provided that in the event of losses, the shareholders would have enjoyed "free management" for some time.

Another tiny fund where shareholders have taken a terrible battering is F-D Capital Inc. Since its origin in 1956, the fund has had six names and now seems certain to have a seventh. Redemptions of old shares now have been suspended as its manager, First Devonshire, has been placed in receivership. The fund cannot calculate the net asset value of a share until it knows if sums owed to it by First Devonshire are collectable.

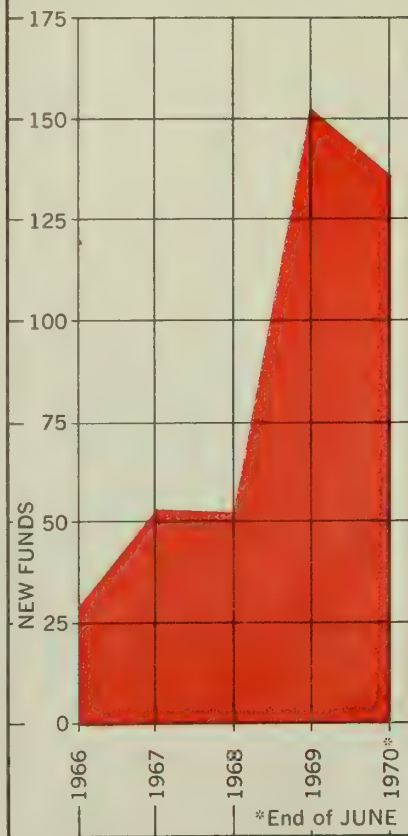
Shareholders in F-D Capital certainly have had a bumpy ride. Its investment policy has been changed twice, its management three times. With a portfolio turnover of 298% in 1969 and 235% in 1968, its performance has been dismal. In the 24 months ended last June, redemptions have been \$1.4 million, new investments \$330,000.

The operating expenses of many small funds in relation to their assets has bordered on the outrageous. A giant fund often has an expense ratio of well under one-half of 1% of net assets. Most funds in the range of \$10 million in assets are up to 1%. But Market Growth Fund (assets \$1.8 million) had expenses that totaled 6.3% of net assets. The 6.3% expenses of the no-load didn't prevent an investment in the fund from declining an extraordinary 66% in the latest market decline as of FORBES' Mutual Fund Survey (Aug. 15). Heritage Fund (assets \$1.6 million), after charging its new shareholders an 8.5% sales commission, also ran up a 4.6% expense ratio.

What was it that the go-go types used to say about *big* funds being unable to produce results?

POPULATION EXPLOSION

Nearly one out of every three mutual funds has come into being in the last two years, one out of two in the last five years.



Source: SEC. new open end mutual funds registered

The Funds

A Very Thin Line

IN THE MONEY management business, the difference between a *general partner* and an *investment adviser* involves, among other things, the method of compensation. The general partner often, but not always, puts in a token amount, but receives 20% of the profits he makes on the money he manages. The adviser simply collects a fee—usually ranging from as high as \$2 for every \$100 managed, down to 50 cents or even less.

The go-go years were great years for the general partners. The profits were ripe for harvesting, and harvest them they did. But in 1969 and 1970 many general partners were strictly from hunger. Some of them (see "Money Men," p. 36) have even decided to give up the business.

Century Partners, an \$11-million private investment partnership, has had as general partners two young men, Richard Hokin, 30, and James Harpel, 33. As partners, they've earned nothing since September 1968. Yet their fund has done reasonably well, relatively speaking, at least protecting their investors from serious losses.

This summer, therefore, Hokin and Harpel asked a favor from their partners. Citing "a unique situation which, hopefully, will not arise in the future," they asked for a "strictly voluntary" contribution.

"We propose that a fee of 2% of the Oct. 1, 1969 capital account of

each limited partner be paid to the general partners." If all the limited partners agree, FORBES estimates Harpel and Hokin will collect about \$88,000 apiece.

They reminded their limited partners that, while there were no profits to be shared, the limited partners had reaped considerable benefits from their investments in Century. While the Dow Jones industrial average was down 13% since Oct. 1, 1969, Century was down only 2%. In dollar terms, the partners had done over \$1 million better than the DJI. That kind of performance, they suggested, was worth compensation.

Passing the Hat

Harpel and Hokin refer to their requested payment as an "ad hoc management fee," implying that it is a one-time proposition to cover an extraordinary period. The question is: In asking for this special fee, did the two young men step across the line dividing general partners from investment advisers?

Among other differences, partners enjoy much greater freedom and rights of secrecy than advisers do. The latter must register with the Securities & Exchange Commission once they have more than 14 clients. Partners do not. Nor need they necessarily tell anyone—including their partners—what is in their portfolio. On top of this, in bull markets, partnerships can be much more lucrative: Under tax laws an adviser's fee is taxable as regular income, while the general partner's

profits are mainly taxable as capital gains. All this gives the partner great advantages and is why many smart money managers refuse to take on additional customers.

A spokesman for the SEC explains that general partners often come close to crossing the line between them and advisers. Says he: "Hedge fund managers have called themselves general partners, taken a chunk of the profits and defended themselves by saying either I'm not advising, I'm running a business, or by counting the partnership (which usually has over 15 members) as one client. Therefore they have not registered."

Some money men worry lest the SEC erase the distinction between partners and advisers. Woodpark Associates, a \$15-million partnership, recently dissolved and sought to set up again as a mutual fund (*though the move did not succeed; see p. 73*). "We knew the SEC would eventually want hedge funds registered in one form or another," says Woodpark vice president Harry Rowney, "and rather than wait till then, we decided to register and get the jump on other partnerships turning into mutual funds."

At any rate, the stock market itself may settle the whole question. Unless the market goes back into a wildly speculative stage like that of 1967-1968—and such stages are relatively rare—most money men may find it more profitable to take a steady, dependable fee rather than gamble on an unpredictable harvest of profits. ■



Hokin (left) and Harpel called their move "an unorthodox proposal."

(Continued from page 9)

ing headlines in self-glorification. Orientals practically never brag about their own monetary wealth. A person is not evaluated by his control of wealth, but by his contribution to his community or country. This is why Mr. Tung desists from distributing his photos at random. [For further information on C.Y. Tung, see p. 61]

—H.L. SOONG
Editor-in-Chief,
Maritime Digest
Hong Kong

Let Me Count the Ways

SIR: As a blue-collar worker, your editorial "Unconscionable" (*Fact & Comment*, Aug. 15) interested me. For your information, there are other ways of losing pensions: service in the Armed Forces, company records incomplete, indifference of a union, etc. Now I have another job, in a different union. Even though the company contributes an hourly sum for me toward a pension that is union administered, I don't believe, unless things are changed, that due to my age, I will be able to put in enough credit years to qualify for the pension.

—F.J. HIMBER
Garfield Heights, Ohio

Send Pies?

SIR: I have a suggestion for your Aug. 15 issues: to wit, an "Annual Pie-in-the-Face Award" to the mutual fund that does the poorest for that particular year. You could set your standard for the go-go fund that was gone-gone, or the worst trader in letter stock or others. You are limited only by your ingenuity and imagination. I feel confident that your readers would delight in this annual event; even send pies.

—STEPHEN A WESTLEY
Erie, Pa.

Shearson Bucks the Trend

SIR: The comment contained in "The Funds" in your Sept. 1 issue that Shearson, Hammill has "started funds and gotten a black eye for it" is off target.

Our one publicly distributed fund is Shearson Appreciation Fund, Inc., which began operations Apr. 20, 1970. Between that date and Sept. 18, the Fund registered an increase in net asset value of 5.2%. This compares with declines of 2.2% in the Dow. In about the same period the total net assets of all growth-oriented mutual funds under \$25 million declined an average of 5.76%.

WALTER MAYNARD
Chairman,

Shearson, Hammill Management Co.
Vice Chairman,
Shearson, Hammill & Co.
New York, N.Y.

No black eye, that—Ed.

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THOUGHTS... ON THE BUSINESS OF LIFE

Doubt is not necessarily the mark of a pessimist or a cynic. Some of the happiest and gayest men are first-class doubters. They are distinguished because they have the courage to face facts. —WILLIAM FEATHER

Sayings designed to raise a laugh are generally untrue and never complimentary. Laughter is never far removed from derision. —QUINTILIAN

Speak not injurious words, neither in jest nor earnest; scoff at none although they give occasion. —GEORGE WASHINGTON

He who praises everybody praises nobody. —SAMUEL JOHNSON

It is a golden rule that one should never judge men by their opinions, but rather by what their opinions make of them. —GEORG LICHTENBERG

Wind puffs up empty bladders; opinion, fools. —SOCRATES

It is in destroying and pulling down that skill is displayed? The shallowest understanding, the rudest hand, is more than equal to the task. —EDMUND BURKE

A sneer is the weapon of the weak. Like other weapons of the devil, it is always cunningly ready to our hand, and there is more poison in the handle than in the point. —JAMES RUSSELL LOWELL

It behooves the minor critic, who hunts for blemishes, to be a little distrustful of his own sagacity. —JUNTIUS

A cynic is a man who knows the price of everything and the value of nothing. —OSCAR WILDE

The pleasure of criticism deprives us of that of being deeply moved by beautiful things. —JEAN DE LA BRUYÈRE

B. C. FORBES

Of all breathing things the cynic is the most miserable, the most pitiable, the least enviable. The people he laughs at, the people he jeers at, the people at whom he shoots his cheap little darts are a thousand times better off than he, though his superciliousness, his self-worship, his impenetrable conceit prevent him from seeing things as they are. Cynicism is a deadly form of moral astigmatism.

Even when there is talent, culture, knowledge, if there is not earnestness, it does not go to the root of things. —JAMES F. CLARKE

There is nothing that people bear more impatiently, or forgive less, than contempt; and an injury is much sooner forgotten than an insult. —LORD CHESTERFIELD

A sneer is often the sign of heartless malignity. —JOHN LAVATER

A cynic is a blackguard whose faulty vision sees things as they are, not as they ought to be. Hence the custom among the Scythians of plucking out a cynic's eyes to improve his vision. —AMBROSE BIERCE

I find the pain of little censure, even when it is unfounded, is more acute than the pleasure of much praise. —THOMAS JEFFERSON

Most of our censure of others is only oblique praise of self, uttered to show the wisdom and superiority of the speaker. —TRYON EDWARDS

Self-love is the instrument of our preservation; it resembles the provision for the reproduction of mankind: It is necessary, it gives us pleasure, and we must conceal it. —VOLTAIRE

Truth is a deep kindness that teaches us to be content in our everyday life and share with the people the same happiness. —KAHLIL GIBRAN

One must never judge the writer by the man; but one may fairly judge the man by the writer. —LOUIS KRONENBERGER

There are two kinds of dramatic critics; destructive and constructive. I am a destructive. There are two kinds of guns: Krupp and pop. —GEORGE JEAN NATHAN

A Text...

Sent in by Florence P. Webber, Bangor, Me. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Who is this that darkeneth counsel by words without knowledge?
—JOB 38:2

OCTOBER 15, 1970 / SEVENTY-FIVE CENTS

FORBES

The TV Networks
Has the bloom faded?



16742317DP312581249L1
MAJ ROBT S CRAIG
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Continental Mark III

The Continentals: the final step up.

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Your first drive will persuade you that a Continental is more than just another luxury car.

These are cars apart and above. At the top of the class.



THE CONTINENTALS

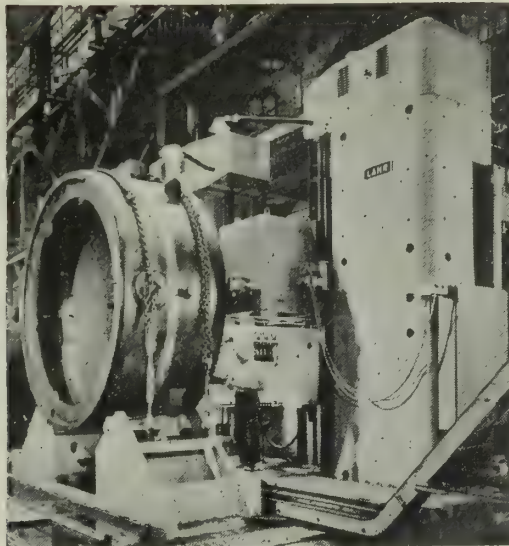
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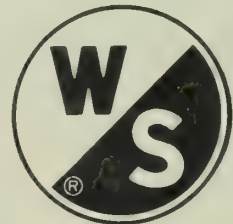
The Lincoln Continental

WRITE YOUR CONGRESSMAN

and tell him what *not* to do for you, what *not* to give you. Tell him all you want of him is a solvent America which lives *within* its income, *whatever* that may be. Make sure he knows you mean it. And tell him there isn't much time.



Tape controlled Lahr Deep Hole Drilling Machine drills 6,800 holes—automatically—in this forged steel part for a nuclear steam generator.



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PHOTO AND ART CREDITS: Ed Wergeles, pages 9, 29 bottom; Camera Press-Pix, page 23; Paris Match-Pictorial Parade, page 24; Bettmann Archive, page 29 top; Charles Gatewood, page 37; Grete Mannheim-DPI, page 38; Wide World Photos, page 40 left; Brian Regrut, page 54; Ian Yeomans, page 62; St. George Tucker Ranson, pages 63, 85 left, 107; United Press Int'l, pages 68, 90 top; Jim Mahan, page 88 top; Dick Hanley, page 88 bottom; Al Coya—Miami Herald, page 89 top; Arthur Siegel, page 90 bottom; United Nations, page 92 top; Map by Pete Di George from "Oil and the Middle East," page 25.

COVER PHOTO: Matthew Bassity

FORBES is published twice monthly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office, New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.

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**When Lewis Carroll's White Rabbit cried, "I'm late, I'm late,"
he thought he'd lose his head. That was a fairy tale.**

When big business cries, "I'm late, I'm late," heads will roll. That isn't a fairy tale.



Incredible as it might seem, the White Rabbit and the American businessman have more in common than you might think at first glance.

They carry watches in their waistcoat pockets.

They can fall into very deep holes. And they can lose their heads if they arrive late.

Yet, even with all these similarities, there is one extremely important difference facing the American businessman every hour.

It's reality.

That guy waiting for his order isn't a figment of anyone's imagination.

And, chances are, if you arrive late with his order, you could very easily find yourself in a deeper hole than the White Rabbit.

But you won't be in any kind of a hole if your bulk liquids are waiting for your customers in a storage terminal.

You'll be in the right place at the

right time.

That's because we have terminals near every major market in the United States. (New York, Chicago, Milwaukee, Portland-Vancouver, San Francisco, Los Angeles, Houston, New Orleans, Tampa, Toronto, Montreal or even Antwerp, Belgium, Yokohama and Kobe, Japan.)

There is another important consideration facing the American businessman every hour, too. It's money. And, as every businessman knows, spending too much can drive you right out of business. There is a better, easier way.

This year, for instance, more than 10 billion dollars worth of equipment will be leased by American business. It's no wonder.

After all, building and maintaining your own storage terminals can cost you a bundle in cold, hard cash.

But if you lease, you'll have your money for the merchandising and producing of your own products.

What's more, when you work with our Terminals division, you can call upon any of our other divisions for assistance on any job.

It can be for research. Or engineering. Or transportation. Or even banking.

Now, as you become more sophisticated in the ways of American business, you see a remarkable connection between business, money and fairy tales.

Because if you don't make any money, you go out of business very fast.

And if you go out of business, you'll find life isn't a fairy tale very fast

GATX

General American Transportation Corporation Chicago, Illinois 60680

YOU'RE BEING ROBBED!

Virtually every time that you spend money, whether at the supermarket, department store, drugstore, or gas station, you're being **ROBBED!** You're being duped, hoodwinked, and swindled out of the full value of your money by a combination of deceptive selling techniques that include Madison Avenue double-talk, mendacious salesmanship, and insidious labeling and packaging ploys. Senator Warren Magnuson, the most alert consumer watchdog in Congress, says that deceptive selling is today's "most serious form of theft, accounting for more dollars lost each year than robbery, larceny, auto thefts, embezzlement, and forgery combined." Sidney Margolius, the dean of American consumer writers, asserts that "Never in the 30 years I have been reporting on consumer problems has the public been as widely and steadily exploited as today." And Ralph Nader, the nation's most renowned champion of consumer rights, states that "Nowadays consumers are being manipulated and defrauded not just by marginal, fly-by-night hucksters, but by America's blue-chip business firms." In short, commercial flimflam is rife throughout the nation and the American consumer is being victimized as never before. As a partial antidote to this widespread fraud and deception, an intrepid, authoritative, new publication has been launched. Its name is **Moneysworth**.

Moneysworth, as its name implies, aims to see that you get full value for the money you spend. It rates competitive products as to best buys (as among cameras, hi-fi's, automobiles, and the like); it offers tips on how to save money (they will *astound* you with their ingenuity); and it counsels you on the management of your personal finances (telling not only how to gain maximum return on your investments and savings, but also how to protect your money against the ravages of inflation). In short, **Moneysworth** is your own personal consumer crusader, trusted stockbroker, and chancellor of the exchequer—all in one.

Perhaps the best way to describe **Moneysworth** for you is to list the kinds of articles it prints:

Earn 12% on Your Savings (Fully Insured)
How to Buy A Car for \$125 Over Dealer's Cost
Inaccurate Billing by the Phone Company
The Advantages of a Swiss Banking Account
The New U.S.-Made Minicars: An Evaluation
14 Recession-Wracked Cities Where Real Estate Is Selling for a Pittance
"Consuming Fire"—Moneysworth takes aim at companies that are defrauding the public.
Unsafe at Any Height—A comparison of the safety records of America's airlines.
A Consumer's Guide to Marijuana
Free Land and Free Money from Uncle Sam
Stocks that Are on the Rebound
Send Your Child to College Abroad
The Moneysworth Co-operative—Details of a price-discount co-op (for purchasing typewriters, cameras, and the like) that Moneysworth subscribers automatically become members of.
How Much Are You Worth?—An amazingly simple chart gives you the answer in 60 seconds.
High-Priced Lemons—Mechanical failures on brand-new Imperials, Continentals, and Cadillacs.
The Link Between Heart Attack and Coffee
The Economics of Being Black
Cashing In on Canada's New "Floating" Dollar
Cyclamates: Did America Overreact?
How to Buy Art Without Getting Framed
Critics' Consensus—A regular feature of Moneysworth in which the opinions of leading book, record, and film critics are tabulated.

Providing Your Teenager with Contraception

"Unit-Pricing"—The most revolutionary development in food stores since trading stamps.

The Effect of Air Pollution on Potency

The Great Odometer Gyp—How rent-a-car companies take the American public for a \$10-million-a-year ride.

"No Load" Mutual Funds—A list of 45 funds that return the equivalent of an 8% profit at the very moment of investment.

12 Ways to Put the Touch on Friends—And 12 ways to demur.

How to Buy Medical Insurance Without Trauma

The Encouragement of Reckless Driving by GM, Chrysler, and Ford—Verbatim quotes from their souped-up ads in hot-rod magazines.

Taking Stock of Your Stockbroker—Nine ways to probe his probity.

Legal Ways to Beat Sales Taxes

Co-ops and Condominiums Explained

"The Safest Car of 19..."—A new series of annual awards by the editors of **Moneysworth**.

How to Break a Lease

Land Investment in Australia—At \$1.20 an acre, land down under rates high among speculators.

How to Sue Without a Lawyer

The Impending Ban on Leaded Gasoline—How it should affect your next car purchase.

A Guide to Legal Abortion—Including the costs in different states.

And Now, Microwave Pollution—An exposé of the damage wrought to humans by radar, electronic ovens, and TV transmission.

Social Security's Special Rules for Women

How Metrecal Hurts Your Diet

Life Insurance: A Legalized Swindle—A Hartford actuary tells why he believes that "more than 90% of American policies are sold through misrepresentation, deceit, and fraud."

Teaching Your Child the Value of Money—Without having him overvalue it.

How to Handle Computerized Dunning Letters

Taxproof Money—A collection of highly creative, little-known, perfectly legal gimmicks.

How to Distinguish Health from Hokum at the Health-Food Store

Blindness Caused by Contact Lenses

Don't Buy U.S. Savings Bonds—Why they make a terrible investment, how they undermine sound government fiscal planning, and why one leading investment counsellor says, "They are palmed off mostly on rubes and financial boobies."

G.E.'s New Synthetic Diamonds: Will They Ruin the Value of Real Diamonds?

The Truth about Cut-Rate Gasolines

"No-Fault" Insurance Clarified

Checking Up on Your Social Security Account

That's the Spirit—Big bargains in booze, beer, and brandy.

Stop Chewing the Fat—How to read the new labels on frankfurters.

Free Checks—A list of 200 banks that allow unlimited writing of personal checks.

Bootleg Birth-Control Pills

When in Doubt, Deduct—The ten most common forms of income-tax overpayment.

\$99 Fares to Europe

In sum, **Moneysworth** is a hip, trustworthy financial mentor. It reflects the quintessence of consumer sophistication.

In format, **Moneysworth** is a newsletter. It is designed for instantaneous communication and easy reference when you're shopping. It is published *fortnightly*. This ensures you that the information in **Moneysworth** will always be up-to-the-minute. Product ratings will appear precisely when you need them most (automobiles and sailboats will be rated in the spring, for

example, and Christmas gifts and ski equipment in the fall.)

In style, **Moneysworth** is concise, pragmatic, and above all, useful. It is also completely forthright. **Moneysworth** does not hesitate to name brand names (whether to laud or lambast them), to identify big corporations when they gouge the public, and to quote the actual prices and discounts that you are entitled to and should be getting. **Moneysworth** can afford to be this candid because it carries no advertising whatsoever; it is beholden to no one but its readers.

The editors of **Moneysworth** are a team of hard-nosed, experienced journalists. The editor-in-chief is Ralph Ginzburg, creator of the flamboyant magazines *Fact*, *Eros*, and *Avant-Garde*. Mr. Ginzburg was the first editor to provide a platform for Ralph Nader to express himself on the subject of automobile safety. **Moneysworth's** publisher is Frank R. Brady, generally regarded as one of the publishing industry's shrewdest financiers. Herb Lubalin, the world's foremost graphic designer, is **Moneysworth's** art director. Together, these men will produce the first—and only—consumer magazine with *charisma*.

Moneysworth is available by subscription only. Its price is \$10 a year. However, right now you may order a special introductory Charter Subscription for **ONLY \$5!** This is **HALF PRICE!!**

Moreover, we are so confident that **Moneysworth** will prove indispensable to you that we are prepared to make what is probably the most generous subscription offer in publishing history: *We will absolutely and unconditionally guarantee that Moneysworth will increase the purchasing power of your income by at least 15%—or we'll refund your money IN FULL.* In other words, if you now earn \$10,000 a year, we'll guarantee that **Moneysworth** will increase the value of your income by at least \$1,500—or you get your money back. As you can see, a subscription to **Moneysworth** is an absolutely foolproof investment.

To enter your subscription, simply fill out the coupon below and mail it with \$5 to: **Moneysworth**, 110 W. 40th St., New York, New York 10018.

We urge you to act at once. Stop being robbed and start getting your **Moneysworth**.



MONEYSWORTH

110 W. 40 ST. N.Y., N.Y. 10018

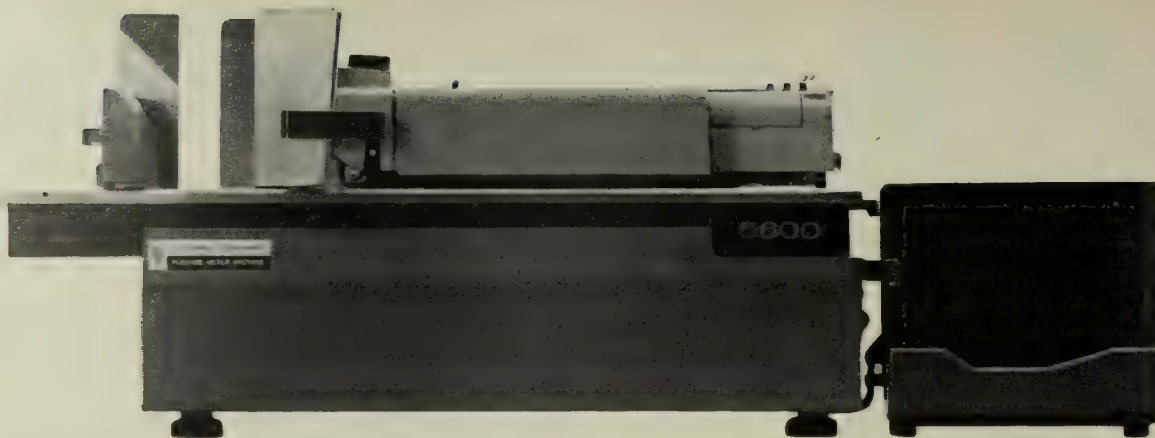
I enclose \$5 for a one-year subscription to **Moneysworth**, the authoritative new consumer newsletter. I understand that I am paying only **HALF PRICE!** Moreover, **Moneysworth** guarantees that it will increase the purchasing power of my income by at least 15% or I will get my money back **IN FULL.**

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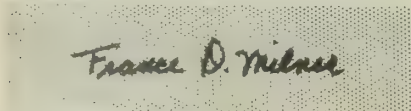
© MONEYSWORTH 1970. T. M. REG. PEND. fb2



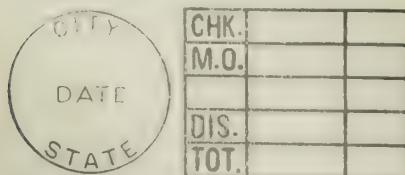
Our 5600 postage meter machine. It puts in a good day's work even before it sends out the mail.

Our versatile 5600 does so much more than get out the mail. It takes over some of the most time-consuming jobs in various departments of your business.

To start with, it automatically feeds, seals, meter stamps and stacks envelopes of practically every width, length, thickness and weight. And then, if you order it with switchable meters, it can do other things, too.



Like signing checks. (One meter acts like a mechanical hand, signing and endorsing checks.) So the accountant can keep his hands on his books.



The check-signing meter can be adapted to imprint dates on invoices and incoming letters. So the poor over-

worked assistant doesn't have to do that menial job.



There's a UPS register, too. To give a big, helping hand to the fellow in the shipping room who handles United Parcel Service.



There's also a decimal meter for bulk third class mail. So nobody has to stay overtime doing that job.

Our regular postage meter which takes care of letters and packages, also gives your advertising department a boost. (If you don't have one, it is your advertising department.) Because it can print a sales message or miniature ad right on your envelope while it's printing your postage. So your mail not only does business. It helps you get it, too. There's no mail



jam-up at the end of the day. And only one man has to man the fort. During office hours, only.



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Side Lines

FORBES in the Middle East

THE MORE FORBES Staff Writer David Pauly poked into the oil industry, the more convinced he became that what was happening to the oil companies in Libya was the key to their future in the whole Middle East. Half expecting to be rebuffed by an antiwestern government, he asked the Libyan embassy in Washington for a visa and appointments with their top oil officials in Tripoli. To our amazement, the whole affair took only a few days. Late last month Pauly was winging his way to Libya.

"It was a lonely trip at the end," he reports. "On the Alitalia DC-9 from Rome to Tripoli, I was the only passenger in the 97-seat plane. Nobody goes to Libya these days who doesn't have to. The stewardess went on the public address system for the first announcement, but felt a bit foolish. After that I got my messages in person from a pretty miniskirted Italian girl." Planes coming out of Tripoli, however, were filled to capacity. The rigidly nationalistic and rigidly Islamic military government is kicking out the country's once-flourishing Italian colony, many of whose members were born there.

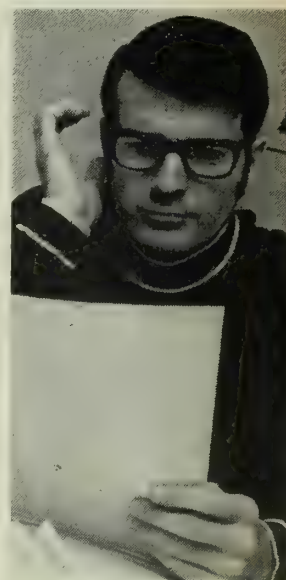
"The exodus of the Italians is really fouling up life," Pauly says. "The Italians weren't big shots, most of them. They were little shopkeepers, plumbers, electricians, barbers. Without them it's almost impossible to have a normal life. The thing is, though, the Libyan government just doesn't care. It's determined to Libyanize, Arabify the country and doesn't mind paying a price for it. Similarly, their determination to root out corruption has brought construction to a standstill in the capital. In the old Middle East *baksheesh* (graft) is what makes the world go, and it will take a long time before they can hope to have honesty and efficiency at the same time."

Pauly feels that this kind of grim determination bodes trouble for the oil companies. "It shows," he says, "that these people are determined to accomplish their goals, cost what it will."

Incidentally, in their determination to enforce puritanical Islamic tenets, Libya's austere military rulers have imposed an absolute prohibition on the sale and consumption of alcoholic beverages, even wine and beer. Which, says Pauly, is creating a boom for Pepsi-Cola and a whole new industry: bootlegging.

Dave Pauly, a native of Dubuque, Iowa and a graduate of Marquette University, came to FORBES nearly three years ago from Chicago where he spent several years, first with Fairchild Publications, then with the Chicago *Daily News*. Good reporter that he is, Dave went into the Libyan assignment with an open mind and came out of it impressed with what he describes as: "A whole new generation of Arabs who are determined to modernize their society without abandoning its older values." And he adds: "Don't underestimate them."

Story begins on page 23. ■



Dave Pauly

Nuclear research is all in a day's work.

Just look at the new research centers and institutes all over the Middle South area: Mississippi's Research and Development Center in Jackson; the Southwest Experimental Fast Oxide Reactor (SEFOR) in Arkansas; The Gulf South Research Institute in Louisiana; graduate level research programs at 26 institutions of higher learning in Arkansas, Louisiana and Mississippi. In addition, Middle South medical centers are among the finest in the nation. And the search goes on. Write: Middle South, Box 61000, New Orleans, La. 70160



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Trends & Tangents

BUSINESS

Rivals in Trouble

The abuse of drugs has become so common as to rival alcohol as a major management problem; together they cost business an estimated \$8 billion annually in absenteeism, sick leave, accidents and wasted time and materials. Although some companies have already set up in-company programs, the American Management Association is encouraging more to do so by sponsoring a special briefing in mid-November to bring managers and mental health experts together to discuss ways of dealing with the problem.

Sticky Situation (cont'd.)

Madison Square Garden and Transnation Development Corp., which have been vying for Roosevelt Raceway for a year, finally came up with a plan to merge all three companies into one big, happy family last month (FORBES, Sept. 15). Both Transnation, which is 41% owned by Gulf & Western Industries, and Roosevelt would exchange their shares for Garden stock valued at roughly \$90 million. It looked like a tidy ending to a rather messy merger attempt—for a while. Then, a few days after the announcement, a Garden shareholder filed a class action suit in federal court that seeks the prevention of the proposed merger, plus at least \$6 million in damages. If you're keeping score, that's the fifth big suit the Garden and its friends have been involved in this year.

Type Cast

The phototypesetting industry expects a phenomenal 300% growth in the next five years to \$150 million a year, but even that would be greater if there were enough printing business to utilize the capabilities of the machines. Phototypesetters, which are a high speed, computerized middle step between a manuscript and the printed page, are expected to take over 65% of the typesetting market, according to a recent study. The slowest growth is expected to be in the highest speed machines, simply because of their incredible capabili-

ties: Just eight of the \$300,000 machines, working one shift, could typeset all the books to be published in the U.S. this year.

For Fewer Cubs . . . Oops, Kids

From the people who brought you Smokey The Bear, drug abuse information and aid to higher education, here comes Family Planning. A new all-media ad campaign conducted by the Advertising Council, which organizes free, public-interest ad projects, is starting to help create motivation for controlling family size. The new campaign, sponsored by Planned Parenthood-World Population, was conceived as a way to build public awareness of the explosive population growth rate and the need to curb it.

Finders' Fee

Mainly because they have moved or married without notifying the companies in which they own stock, some 7.5 million of the 30 million U.S. shareholders are lost to their corporations. The lost stockholders themselves lose on expiring warrants and misdirected dividend checks amounting to millions of dollars annually. The problem
(Continued on page 110)

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READERS SAY

Investor Psychology

SIR: I didn't react as Mr. Moffett did, but "Side Lines" (FORBES, Sept. 1) led me to page 43 and Mr. John King's economic analysis. Mr. King's observations are totally in agreement with mine. The one thing he omits is: What changes the behavioral psychology of the consumer?

—NORMA M. VAN SCHIACK
Evanston, Ill.

SIR: Regarding the Moffett article, last summer I did a pilot study on the motivations of Milwaukee investors and found no reasonable patterns. As a longtime market researcher, I have always found that human behavior in the marketplace makes sense. I think we'll have to dig pretty deep to understand the behavior of investors.

—GERALD C.F. ALLEN
Director, Research & Marketing,
McDonald Davis Schmidt, Inc.
Milwaukee, Wis.

SIR: I believe Mr. King doesn't go far enough. We should address ourselves to the question: What makes the public optimistic or pessimistic? The answer is growth or decline in the liquidity of the money supply.

—MARTY BERGER
South Hackensack, N.J.

The Power and the Force

SIR: Why did you not mention Magma Power in your "Pollutionless Power" item (Trends & Tangents, Sept. 1)? They are into this development along with both Union Oil and Pacific Gas & Electric. Although not very big nor wealthy, they've been the driving force and drillers behind much of this development.

—R.P. ALEXANDER
Redondo Beach, Calif.

Incentive Fees for Funds

SIR: The article pertaining to the incentive fees paid to some mutual fund management companies in the Sept. 1 issue (p. 57) concluded that such fees were a farce unless fund managers were penalized for poor performance as well as rewarded for good performance. The conclusion, which I believe is questionable, becomes entirely unsatisfactory when one examines the specific fee structures of those funds cited. A valid conclusion as to the fairness of such fees should only be made after a thorough examination of the entire fee structure of a fund inasmuch as an incentive fee may prove to be a relatively minute expense when compared to other shareholder expenses.

The Mates Investment Fund is cited as having a "relatively high base fee." The base management fee of three-quarters of 1% may be somewhat higher than that of other funds, but the overall fee structure of the fund is certainly com-

(Continued on page 15)

Every rent a car company will rent you a car. And that's where the comparison ends.

There are about 15,000 places in this country where you can rent a car.

They go from local guys with a handful of cars to national companies with thousands.

Some merely hand you the keys to a car.

Some, in comparison

to the ones who do nothing, do a lot.  We can rent you a car at over a hundred airports you've never heard of.

But nobody else does everything Hertz does. First, we make it easier to rent a car.

We can have a car waiting for you in any of over 100 countries, in practically every major airport, and in many that aren't so major.

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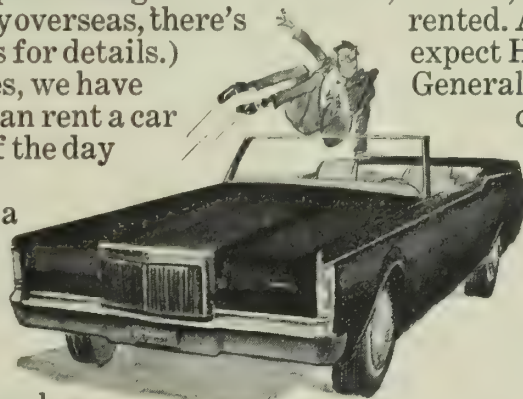
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Most of these things help you when you rent or return the car. But we've learned that people can use a lot of help in between. If you don't know where to go, and don't know how to get there, we can

help. We've printed a manual for most every major city in the U.S. It tells you where to find a good hotel, a decent restaurant, how much to tip, etc. And once you know where you want to go, there are maps in the manual to show you how to get there.

 We know places where you can ward off an attack of midnight hungries.

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nurse service for our policyholders and their families, to fight the spread of disease with the spread of medical knowledge.

By 1952, we'd made over 100 million house calls.

By 1953, Visiting Nurse Associations had taken over from us in the field of nursing. Leaving us free to tackle other problems in the field of health.

This year, for example, we're working with a large med-

ical center to investigate ways of holding down the cost of medical care, without cutting down the personal attention a doctor gives his patients.

As a life insurance company, we want people to live. And as human beings, we want even more for them to live in health.



Metropolitan Life

We sell life insurance.
But our business is life.

READERS SAY

(Continued from page 12)

parable to, if not lower, than most. The fund does not, for example, charge a sales commission (load), does not have a redemption fee and does not provide management with an incentive fee. In addition, at no time has the net asset value of the fund declined to the extent cited in your article.

—ROBERT J. VOLPERT
Director of Public Relations,
Mates Management Co., Inc.
New York, N.Y.

How to Talk Back

SIR: Along with many other Americans, I have suffered at the circuits of the computer and so was delighted with your comments in the Sept. 1 issue (*Fact & Comment*). The only person I ever knew who absolutely got the best of a computer was a classmate [who was] repeatedly dunned about some matter via the multihole card. In a fit of anger, he grabbed a standard punch of the type used by conductors and made the card a good deal holier. He returned it and never heard from the concern again. All of us liked to think that the computer was short circuited into oblivion.

—WILLIAM L. NEWMAYER III
San Francisco, Calif.

SIR: You suggest an ombudsman for the victims of unyielding computers. May I suggest instead that management insist that flexibility be programmed, that there are avenues for human intervention. If you are considering a computerized system to replace an existing one, consider the effects. If the old flexibility of a manual system cannot be retained or improved at a savings in cost, then don't computerize.

—ARCH C. DAVIS III
Systems Analyst,
Princeton University
Princeton, N.J.

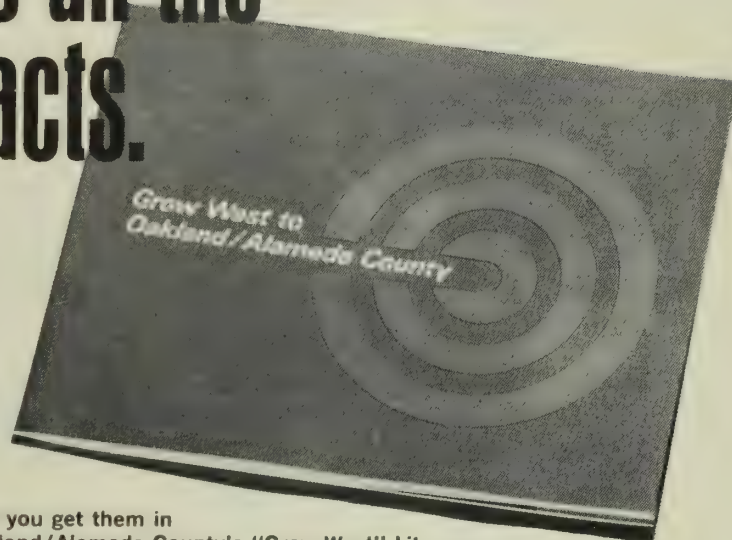
More on the Midi

SIR: I feel that Pete Hamill's remarks about midi-wearing women were unnecessarily harsh and very exaggerated (*FORBES*, Sept. 15). And, as Eugenia Sheppard says: "The plain truth is that, whether the skirts are long or short, the same women will always look chic and beautiful and the rest will look dowdy." I'm not anti-mini, midi or maxi. Personally, I like them all. I'm just anti anyone who criticizes or stereotypes a woman just because of the length of her skirt.

—S. GRIMM
Short Hills, N.J.

SIR: The media has created a pseudo-event; the revolt against the midi. It does not exist. With the return of consumer confidence and a higher Dow Jones average, the money will be spent, as it always has been, on something new
(Continued on page 109)

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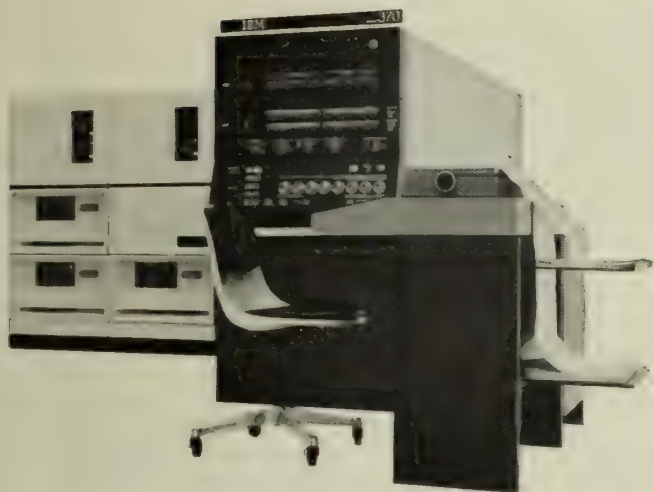
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Like reloadable control storage. So you can have features like block multiplexing, 1400 and 7010

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We think it's the best file around.

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But perhaps the most amazing thing of all is that we've been able to make System/370 this advanced while still making it compatible with System/360.

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These words aren't empty chatter.

Everything we've said is backed up by hard facts.

Our products change. But our philosophy doesn't. We want you to get the most out of your computer system.

System/370. The performance computers for the seventies.

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Eleven questions for presidents considering a computer installation.

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- Will the choice of location for the center best serve your interests — immediately as well as in the future?
- Will the layout of the center incorporate the most efficient flow of traffic among those departments that support or depend on it?
- Will the plan permit maximum internal flexibility for adding and rearranging peripheral equipment?
- Will it have adequate provisions for physical expansion to accommodate additional "hardware" and staff?
- Will the center have built-in operational reliability?
- Will it have safety features to help protect your investment as well as service commitments?
- Will it have provisions for maintaining information security?
- Will the working environment at-

tract and hold the skilled personnel you require to get the maximum benefit from your investment?

- Will the capital cost of the new installation bear a realistic relationship to the anticipated benefits?
- Will the planning, design and construction of the computer center be handled so as to assure on-schedule and within-budget completion?
- Do you have the internal resources to plan the new installation to assure satisfactory answers to all these questions?

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Austin specialists begin by analyzing your objectives as well as the methods available to attain them. Alternative solutions are carefully

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Fact and Comment

AND HOW IS BUSINESS TURNING OUT THIS YEAR?

It is not often that a cartoon can answer a complex economic question, but this one, from that extraordinary and invaluable national business daily, *The Wall Street Journal*, may come close.



"We're expecting a tremendous year—might even break even."

OKAY, FIX IT, BUT DON'T ABANDON IT

Our exports in recent years have increased negligibly while our imports have soared. This trade imbalance weakens the dollar, weakens our power posture in the world.

Quite rightly, the Nixon Administration has set as an important goal an increase in exports by some dozen \$billion during the next three to four years. To make it more worthwhile for American companies that make things here to sell more of these things overseas, the Treasury Department has urged a tax-incentive plan setting up "DISCs," which would in effect reduce the current tax rate on in-

come from exports to half of the tax rates on profits from products sold here.

This proposal has been criticized on the grounds that as now written it would not achieve the objective and would cost the Government sizable revenues.

Okay, if that's the case, rewrite the proposal so it better accomplishes the objectives. Don't, however, abandon the idea of making it worthwhile for companies to make things here and sell them there. We ourselves and our dollars both sorely need sharply increased exports.

A FIRST AND GOOD STEP

As the whole automobile insurance business has gotten chaos-ier and chaos-ier for all hands, at long last a first and vital step has been made that should help the situation. Massachusetts has enacted a "no-fault" plan whereby those injured in auto accidents can collect up to \$2,000 for medical expenses and other costs without going to court.

Unfortunately, the Massachusetts effort has been completely screwed up by throwing into this essential reform other stuff that threatens to make the new effort unworkable for reasons quite other than the no-fault provision.

As it is now, automobile liability insurance costs soar annually to the point where it is virtually unaffordable for an ever-larger number of people who must nevertheless

use their cars; in most states you cannot use your car without such insurance; it takes either close friendship or other manner of means even to be considered for such insurance. And, with it, accident victims recover only about 20% of their direct losses. The insurers lose their shirts.

Most courts are backed up for years on cases attempting to establish who was at fault in every accident, and then in trying to collect. The administration of justice suffers, and there's little justice for those who need and seek it.

The only ones benefiting from the present system are the lawyers with auto accident cases. Their Neediness (some of their clients would spell it with a Gr instead of an N) should no longer be considered paramount.

COULD WE BE WRONG?

You and I and everybody else able to read or to hear—with the exception of those in lead and gas—have joined the seemingly sensible conservationist cry, "Let's get the lead out of gas and live longer."

But, whaddaya know, those Big Bad Selfish Lead and Oil Interests are finally if faintly having their demurring voices heard.

And if even some of what they say is right or half right, we ought to pause before we plunge billions of antipollution dollars into a program that conceivably should be among the last instead of the first in ecological priority.

It would appear that the lead in gas doesn't per se *dangerously* foul the air. Its principal crime is in fouling up the automobile industry's present exhaust defouling devices.

You doubtless know just as little as I do about the technical aspects of auto exhaust depollution gadgets, but I'll warrant that week by week in lab after lab important new approaches, new technology, new gizmos are being invented or developed that will accomplish the purpose in other ways than those devices available at the moment.

WOMEN'S LIB—ITALIAN VERSION

For those so vehemently and violently pushing, pounding, bleating and beating for women's liberation in the U.S., I'd recommend they check out the way the women of Italy have achieved their liberation.

Neither laws nor the surface submissiveness by the ladies of Italy toward the men of Italy has a darn thing to do with the realities. In law, their women have little or no rights, status, standing. Ostensibly and ostentatiously, the men rule their women with all the tyranny that the most rabid Male Chauvinist could desire.

But, and I do mean *but*—

If you've ever been to Italy, you know from the first in-

If taking the lead out of gasoline—even though it cost billions—would cure or even substantially reduce exhaust pollution, it would have to be spent. But if a bit different and better antipolluting device on which the lead in gasoline has no effect is around the corner, should we plunge precipitously down the lead-out road when billions involved might be nearly irrelevant to a meaningful solution? Instead of penalty-taxing leaded gas, it has been suggested that a penalty on automobile horsepower would contribute vastly more and more quickly to the reduction of foulness in the air because smaller engines pour out less.

And, at a time of concern for oil reserves, taking the lead additives out will result in 6% less efficiency for present day engines; will involve a 6% greater use of gas than is presently consumed.

There are so many unarguably necessary, expensive depollution steps that should be taken now to dispose of human wastes and industrial wastes that we should at least pause and see if there might not be a mite of merit in the points raised by Ethyl and Oil.

stant who *really* rules country, home and hearth. The enveloping, unadulterated, unending, overwhelming love of Italian mothers for their children, particularly their sons, enables them to rule the roost absolutely and completely. If ever there is, was, has been or will be a matriarchal society, it is, was, has been and will continue to be in Italy.

In other words, girls, the Italian ladies are a million miles ahead of those of you who want mere equality. Why fight for, settle for that when by loving us ever more and more you can be more than equal?

You can be in total charge.

The battle cry for Women's Lib ought to be "*Viva Italia!*"

RECOMMENDING THREE BOOKS AND TWO MOVIES

Those now-many who have no personal memories of the Great Depression of the Thirties can get an inkling of what economic direness is by reading *Hard Times, An Oral History of the Great Depression*, by Studs Terkel. It provides insight and useful knowledge that we'd all prefer new generations learn from books rather than experience.

While the former deals with the ravages of economic poverty, George Dennison's *The Lives of Children* deals with the devastation that a poverty of love and caring can wreak on individual children. It is an inspiring but sobering book—inspiring because it case-histories what can be done between teacher and child; sobering because it takes so much time, so much knowledge, so much caring on the part of each teacher to have real impact on any one or even a very few youngsters.

If baseball is your thing, Jim Bouton's *Ball Four* will surely be your book. You can cuss and discuss it along with all the defamed Famed. For those unAmerican enough to find baseball a bore, this book suggests the principals do too.

The two recommended movies are of totally opposite types, but I'll nearly guarantee you'll react to 'em both. Roberto Rossellini's *The Rise of Louis XIV* conveys convincingly what an incredibly difficult job being an effective king was. The chowdown scene alone would be enough to make any of us welcome the guillotine—or at least throw up the job.

Joe, from the word go, whams you right in the solar plexus. As does that great movie *Patton*, Joe pleases both Right and Left as it flays everything left and right.

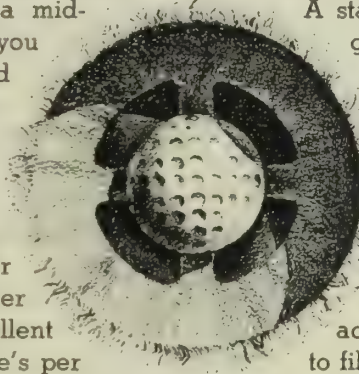
—MALCOLM S. FORBES,
Editor-in-Chief

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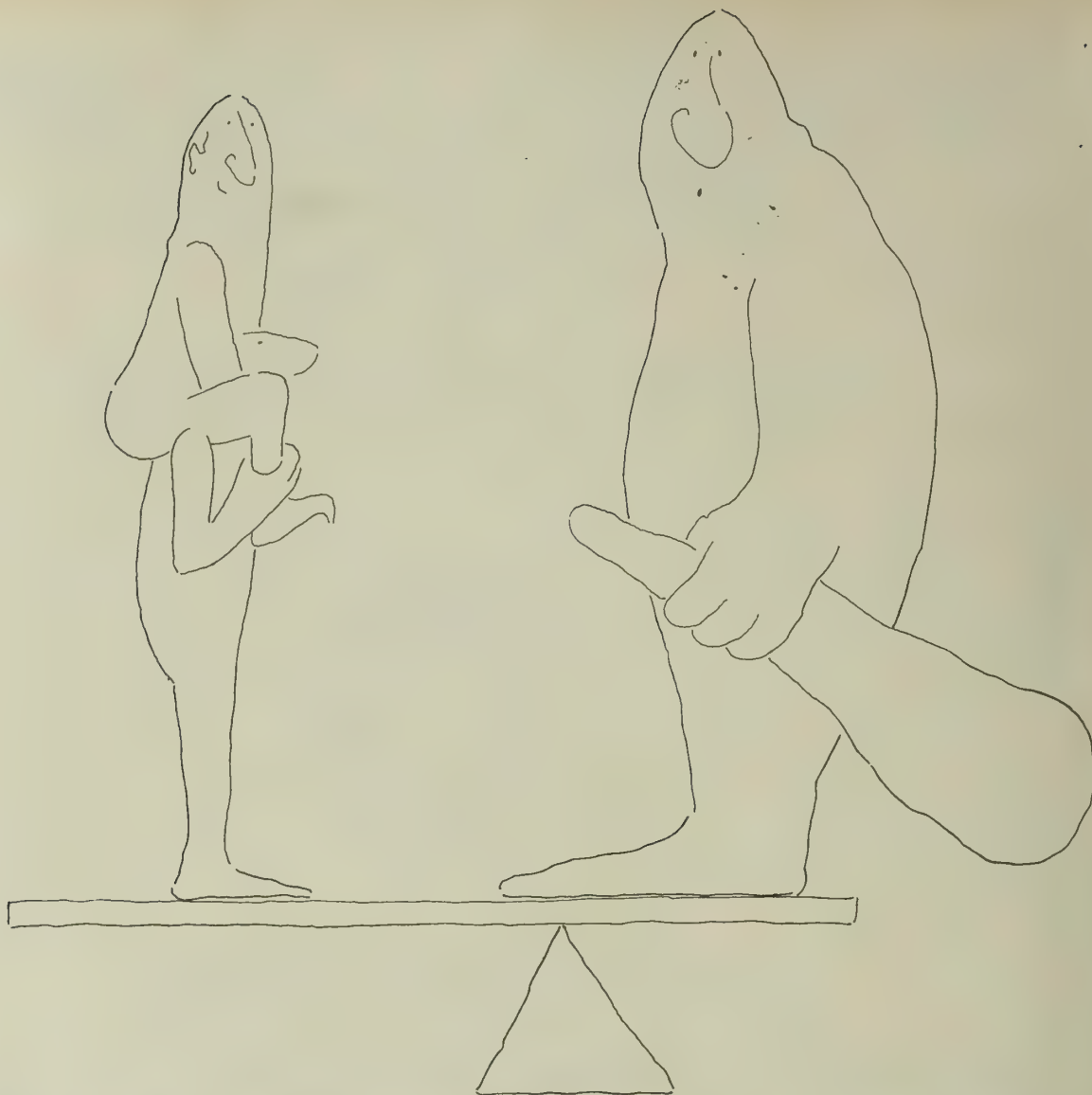
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Oil in Ferment

For the oil world, what is happening in Libya may be more important in the long run than the events in Cairo and Amman.

WHILE JOURNALISTS chased the headlines to Cairo, to Amman and to Beirut early this month, a few hundred miles away to the west in the sparsely populated desert land of Libya, events were taking place that may have as important long-range consequences as the death of Nasser or the fate of King Hussein. The year-old military government that rules Libya has successfully squeezed more money from several of the international oil companies that operate there. Looking farther down the road, the Libyan action could carry Arab oil a big step toward full "Arabization."

This is the conclusion reached by FORBES Staff Writer David Pauly, just back from Libya where he talked with that country's top oil officials. Every Libyan he talked with made it clear that Libya would not much longer be content to be just a landlord for the oil companies. It wants to own the industry. And intends to own it. Perhaps not tomorrow. But soon.

No Difference

Typical was the statement of American University of Beirut-educated Omar M. Muntasser, deputy director general of the government-owned Libyan National Oil Corp., who said: "The ultimate goal of any country is to run its own industry. That's true of the U.S., it's true of Germany and

it's every bit as true of Libya."

Does this mean total nationalization that Chile threatens in copper? Not right now, Muntasser, who once worked for Mobil Oil's Libyan subsidiary, emphasizes, because "we still need a lot of expert help." For how long will Libya need "help"? Some experts FORBES talked with think that substantial nationalization is only about five years away.

In some ways, of course, Libya is a special case. Being close to Europe, its oil can move to that huge market relatively cheaply. Especially is this important at a time like this when oil tankers are in short supply. Moreover, Libyan oil is low in sulphur content and thus is in extra demand because of air-pollution worries.

But in other ways, Libya is quite typical of the Middle East, where nearly 80% of the world's oil reserves sit (see map, p. 25). Its government is reformist but not radical, nationalist but not communist, traditionally Islamic in some ways but determinedly modern in others. It is very much in the Nasserite tradition. It is the kind of government many scholars expect to see win out eventually in the Arab lands—both over communist-leaning Arabs and over traditionalists like Kings Faisal and Hussein.

At the moment, the oil situation in Libya is this: Under heavy pressure,

Occidental and a group including Continental, Marathon and Amerada Hess have agreed to increase the government's take on Libyan oil from about \$1 a barrel to about \$1.25. Other big companies have followed, apparently on similar terms. When the oilmen complained that this takes all the profit out of the business, Libya simply replied: Raise the prices. Or, as Libya's Under Secretary of Petroleum, Isa Gublowdi, another U.S.-educated (Harvard Business School) oil expert, told FORBES: "They can make a profit. They can pass on the increase to the consumer." As an alternative, Gublowdi added, with something of an impish smile, that European nations can cut their own gasoline taxes. "That's up to them," he said. "I do know that the consumer only cares about the price he pays, not how much his government gets."

Lonely Holdout

Shell, however, strongly resisted the new deal, for the very good reason that it was afraid that what it gives the Libyans today, all the other Arab countries most certainly will want tomorrow.

It would be shortsighted, however, to think that the Arabs are simply haggling over price. In the case of Libya, money per se is no longer the big thing. This nation of just 1.8 million

people, even with lavish spending on education and the military, has a budget of just \$1.8 billion; its current oil revenue is around \$1.3 billion. The Arabs are looking to oil for more than money. They are looking to it as a means of teaching technology to their people, of creating new industries and thus of dragging the proud Arab world by its bootstraps into the modern economic world.

They do not feel that money alone can do this. They feel they must master every phase of the oil business. This they are already starting to do. Iran already has gone a fair way in this direction and so has Saudi Arabia. In fact, some experts say that Iran, with several years' experience already under its belt, could take over its entire oil operations today without any loss in efficiency. In the non-Arab world, Venezuela has already taken giant strides. But the Libyans indicate that they would want an even faster pace than that.

On Another's Money

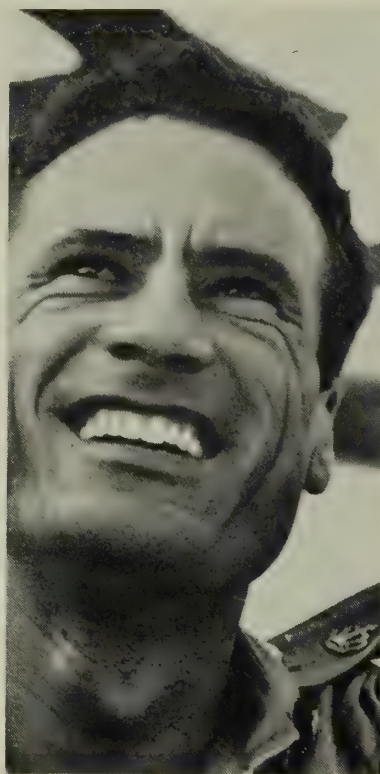
"The way to learn the business is to do it yourself," says Muntasser of the government-owned oil company. "We already have four joint exploration ventures with Shell, AGIP, Ashland and a French group. The risk money is only on the company's part. If production is achieved, we buy our way in, from a minimum of 25% up to a maximum of 50%.

"We're also planning a complex near Benghazi that will include an export refinery, which Ashland might participate in; a methanol plant, a 50-50 deal with Occidental; and an ammonia plant. We've already signed up Tunisia to take ammonia. We also plan a local refinery west of Tripoli, and we've nationalized all of the domestic marketing, terminals and about 350 gasoline stations."

What's next? "We want more joint ventures," Muntasser goes on, "but they have to be better than the ones we have now. We want service-contract arrangements such as they have in Venezuela and Indonesia. The companies will provide the risk capital. We will pay them 10% or 12% of the crude if they get production, and we take the rest and sell it."

Where will Libya sell its share? Here Muntasser expects major changes. He predicts that the present oil companies will lose some of their market strength. "The oil business of the future will find government-owned marketing companies with little or no crude dealing with national companies like ours that have it. We get offers to buy from Europe now, but we don't have the crude. We have only been able to make one token deal with the Aus-

New Deal



A YEAR AGO when Colonel Mu'Ammar Qadhafi, 29, engineered a coup with young army officers that overthrew Libya's aged King Idris, the international oil companies—correctly sensing that the honeymoon was over—began to step up the production of their Libyan wells. But Qadhafi would have none of it (*see story*). While he has been putting the squeeze on the companies' profits, Qadhafi also has been strengthening his hold on the government, successfully nipping at least two more coup attempts along the way. After a September shuffle, eight Qadhafi soldier-revolutionists were in top positions *vs.* five civilians, reversing the old ratio. Qadhafi has further trimmed foreign sails in Libya by forcing both the Americans and the British to give up their bases there. He has bought Russian tanks, but tries to adopt a neutral stance by pointing out that Libyans, not Russians, are driving them. Despite its tough stand against the West, Western observers to a man vouch for the honesty of the Qadhafi government—at least so far. Just how honest is it? An old-time oilman in Libya gives the best answer possible: "Yes, they are honest all right. If they were corrupt, they wouldn't give us so much trouble; then we would know how to handle them."

trians up to the present time."

For those who think of Arabs as emotional and naive, it's quite a revelation to see how the Libyans forced the oil companies to do their bidding. The government's first move was to order a cutback in production, 37.5% for Occidental, 15% for several others, on the premise that the companies were producing too fast and thus harming their wells. The cut meant less oil to spread the overhead on.

Then the Libyans demanded more taxes and told the companies to raise their own prices. "We have the advantage of location and low sulphur," argues Gublowdi. "But Libya's price was basically the same as in other Mideast countries. We are correcting prices." But there's more to it than that: The Libyans knew to a very close degree just what the market would bear; the winter heating season was coming and they figured Europe could be forced to pay more.

The Libyans quickly won the tax negotiations by dividing up the companies. They knew major companies like Esso, Texaco and Mobil, that operate in many other countries, would balk at granting precedent-setting increases. So, they went to work on Occidental and the other independents, that have relatively little oil outside Libya. The independents, with little real choice, quickly capitulated.

The battle was already over. Why? These independents produce about 1.7 million barrels of oil a day. Given the new prices, foreign currency reserves of about \$1 billion, and the fact that it isn't even spending all the money it had budgeted, the government only needs the income from about 1.5 million barrels daily to meet its current budget. If the majors had proved recalcitrant, the government could have shut them down without hurting itself. If the majors had decided to leave the country, the Libyans had time to get other companies—European government-owned outfits thirsting for crude would be prime possibilities—to come in and work their oil fields. The majors, understandably unwilling to let their big investments slip away, soon began falling into line.

Save a Well for Libya

Even after the hardest bargaining was over, the Libyans refused to drop their guard. For example, FORBES asked, didn't the government compromise with Occidental by restoring its production allowable to 700,000 barrels a day after Oxy signed the agreement on which all further negotiations were based? "No," replied Gublowdi. "Oxy convinced us that it could produce that much and still follow

good oil-field practice. But Oxy is still down from its old rate of 800,000 barrels a day. And it would be producing 1 million barrels a day by now if we hadn't stopped them. Other companies might be allowed to produce more if they can convince us they can do it without harming the wells. We would welcome any increase in production, but on a sound basis. We think that if we save a good well for Libya, we also save a good well for the consuming countries."

dously. Alaskan oil will not be so easy to exploit as they said at first. Nigeria's producing costs are higher than Libya's. The North Sea will not supply a major part of the needs of Europe. Second, Libya has low-sulphur oil, and the air-pollution problems in Europe, Japan and the U.S. will get worse. The cost of desulphurization is more than 60 cents a barrel. Technology can reduce that cost, of course, but there is a long way to go.

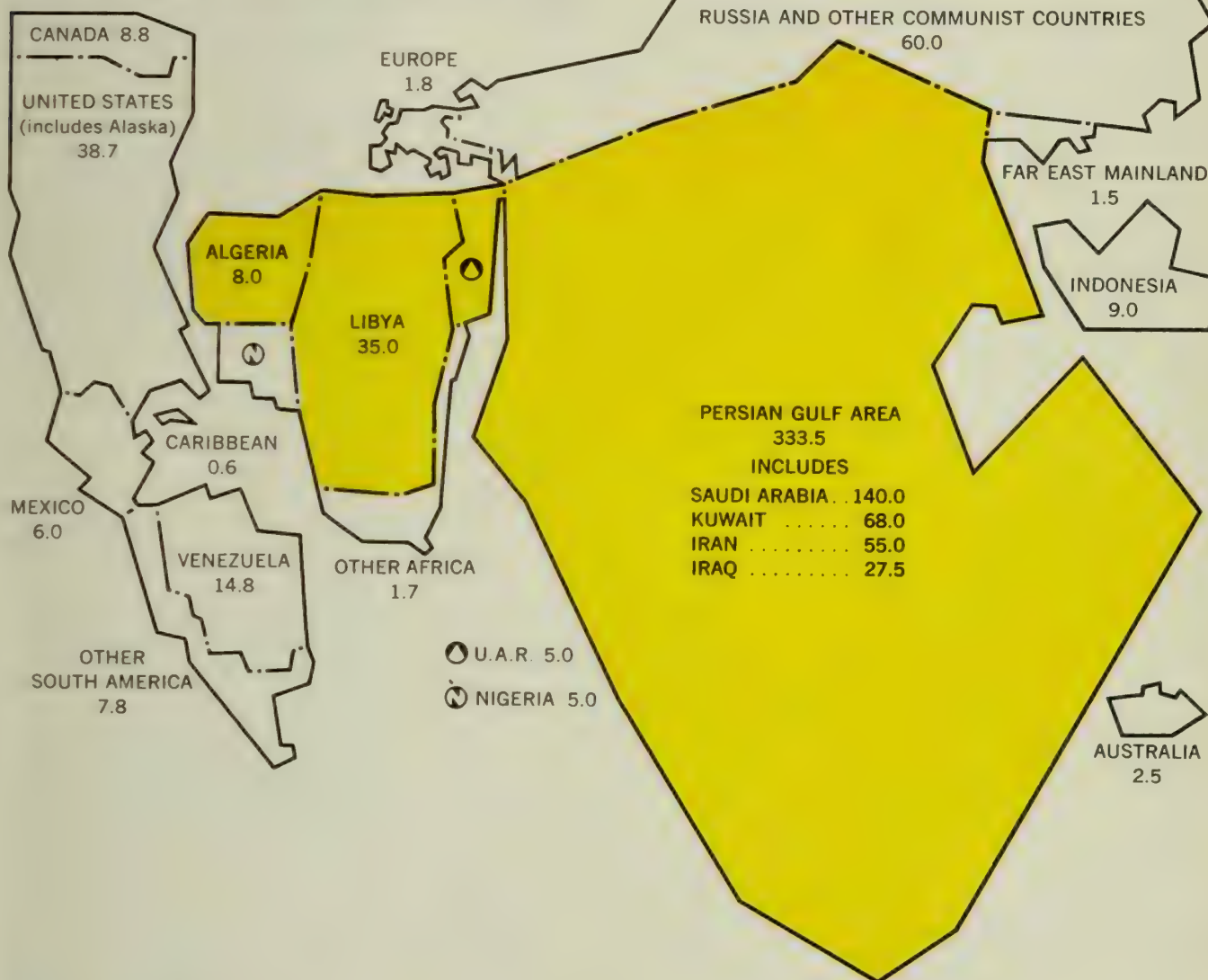
"If the tanker fleet is increased, the

a harder bargain because theirs is better—and closer—oil. But there are few oilmen who think that other Arab oil countries will settle in the end for less than the Libyans.

The signals are there for all to see: The Arabs will probably continue to need the oil companies for their access to markets, for their technology and for their capital. The oil companies are not going to be squeezed out, but, increasingly, they will stay in on Arab terms. Increasingly, they will

WHERE THE OIL IS

If geography reflected the reserves of oil in the ground, the map of the world would look like this. The numbers represent billions of barrels.



In brief, the oil companies were outsmarted and outmaneuvered. But Libya is in an ideal bargaining position today to make the oil companies bend. Will that always be the case? Gublowdi's answer:

"Maybe not as good as it is now, but it will always be good. For many reasons. First, the demand for oil all over the world is increasing tremen-

cost of transportation decreases. That would mean Libya could export oil to Japan and other Far East countries that need low-sulphur oil. Even if Europe bought all its oil from the Persian Gulf, we would still have a big market. The air-pollution problem is worse in Japan than it is in Europe."

In this vein, the Libyans kept insisting that they were justified in driving

have to persuade the Arabs that it is more advantageous to deal with them than to negotiate directly with Western governments.

The Arabs know they hold a strong trump card in an increasingly energy-hungry world. Thus one thing is virtually certain: The public in Europe and the U.S. is going to pay more for Middle East oil in the long run. ■

Danger: Handle with Care

Memorex is a company to admire—but not blindly.

It's IMPOSSIBLE not to like Memorex. Its president, 44-year-old Laurence L. Spitters, is a modern Horatio Alger story: Son of Dutch immigrants, he worked his way through college, then law school and business school. In 1961 Spitters and three other employees of Ampex decided that they could make a better and cheaper magnetic tape for computer data. They did. In the last five years, as it has diversified, Memorex' sales have risen from \$13.1 million to \$77.7 million despite some competition from the toughest U.S. companies.

A beautiful little company? Yes, but with a flaw. To achieve his vaulting goals, Spitters is taking some huge risks. This may be fine for firms like John Hay Whitney's, which bought into Memorex very early, or for the Wall Street professionals who can watch its every move. But do *all* the investors know the risks?

Memorex' impressive growth so far has been based primarily on magnetic tape and disk packs—devices for storing computer data. Price competition is mounting, but the business grows so fast that Memorex might double its revenues by the end of 1972.

But Spitters' goal is more ambitious: He wants to *triple* Memorex' revenues by 1972, to \$250 million. To reach that, he needs new sources of revenue. So in the last year Memorex has added three new and expensive pieces of peripheral equipment: a microfilm printer, for \$44,500, that records computer data, a \$5,000 communications terminal; and a new disk drive (the MRX 3660) priced at \$200,000.

It is by such products that Memorex expects to fuel its growth. Figures the company recently prepared for potential institutional investors predict that sales value of U.S. peripheral equipment shipped will reach \$155.5 million by 1972 vs. \$15 million last year.

But the hardware itself is only the obvious step toward that \$155.5-million goal. It also takes marketing. So in the last year Memorex has increased its equipment group marketing organization from a dozen employees to over 300—rather like trying to turn a good platoon into a strong regiment overnight. Can it be done?

Then Memorex must worry about International Business Machines. Most of its new peripheral equipment volume must be taken directly from IBM. Memorex, by and large, does not create new markets. It produces near-duplicates of parts of IBM computers, and sells them by underpricing IBM.

Memorex' theory, like that of most of IBM's competitors, is that IBM's 70% domination of the computer market is so overwhelming that any price reduction will hurt IBM itself more than it will hurt a competitor.

Is that theory still true? On September 28 Memorex stock dropped 10 points, from 94 to 84. A few days earlier IBM had introduced its 370 Model 145 computer as a successor to some of its very popular 360 computers. IBM rented its popular 2314 disk drive, to be attached to a 360, for \$5,200 a month; Memorex offered a comparable unit for \$4,500. In the 370 Model 145, the 2314 will be replaced by a 2319. But instead of the 2319 offering better performance for more money—IBM's usual strategy—it offered *equal* performance for \$3,800 a month, a 27% price reduction. Isn't that price competition on IBM's part?

Memorex' most important problem may be financing. Though its debt-equity ratio is already 2-to-1 (\$79 million to \$39 million), Memorex needs much more money to reach its goals. So this summer it set up a subsidiary, International Leasing Corp., to raise \$180 million from big institutions.

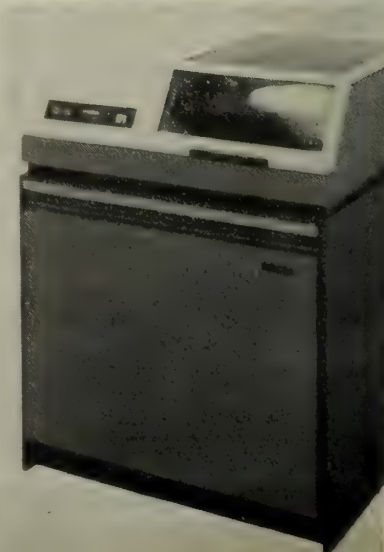
Details of ILC are spelled out in documents Memorex is circulating privately to potential investors, some of whom could also be investors in Memorex stock. The documents tell a good deal about Spitters' ambitions that is not available to ordinary investors, such as his best estimates of Memorex' U.S. peripheral equipment sales: 1970—\$53.3 million; 1971—\$141.6 million; 1972—\$155.5 million; 1973—\$188.8 million; 1974—\$250 million; 1975—\$333.3 million.

According to the documents, ILC will be capitalized at \$200 million, nearly twice Memorex' current capitalization. Memorex will contribute \$20 million in equity. Institutional investors are being asked for \$162 million in debt and \$18 million in equity.

ILC will apparently work this way: Most EDP equipment is leased, so that the manufacturer doesn't retrieve his costs for several years or more. When Memorex leases a piece of peripheral equipment to a customer, it will sell the machine to ILC for typically 37 times the monthly rental. In return it will get most of the cash the customer would have paid if he bought the equipment. This serves two purposes: First, Memorex covers its costs at once even though the equipment is on lease. Second, flexible accounting rules permit it to take much of the profits



"Anything you can sell we can sell cheaper." That's Memorex' marketing strategy against IBM. Its magnetic tape (directly above) and disk drive (top of page) both sell for less than comparable IBM equipment (below). But can't IBM cut prices? That's a key question.



from the lease into earnings at once.

On the other hand, it is expensive financing. In return for their risk, ILC's backers may get a 15% return on investment if all the equipment is kept on lease for 48 months (at projected rental rates) and 19% if it is kept on rental for 60 months. But Spitters obviously feels these costs are worthwhile to achieve his goals.

Then there is a credibility problem. Last year Memorex' reported earnings were \$6.9 million. But it deferred over \$3 million of research and marketing costs that, had they been expensed, would have brought adjusted net to \$5.5 million. This year some analysts expect it to report \$9 million earnings—but after deferring some \$10 million in such expenses. Without this deferment Memorex would probably show an earnings downturn this year.

Riposte

Spitters calls those who question these deferrals "simply naive or ill-informed about Memorex' diversification strategy and our specific programs." A sophisticated question to ask about Memorex' accounting, he argues, would be: "Are the deferred R&D programs part of a good strategic framework?"

That is a good question, but obviously few ordinary investors could hope to come up with a good answer. Nor would they have the time to review the company so constantly as to anticipate any write-offs of the estimated \$13.5 million in deferred costs that Memorex will have accumulated by the end of 1970.

Spitters also has a rationale for Memorex' large debt of \$79 million (convertible at 142, the stock is presently 84) and his expensive tactic of financing \$180 million off the balance sheet. IBM's policy of leasing rather than selling computer equipment is "an anomaly of American business," argues Spitters. To compete against an extraordinary company, he reasons, requires extraordinary measures.

Memorex is a company that is in the best tradition of American business—smart, aggressive, aware that it must take substantial risks to compete against formidable giants like IBM.

In fact, it is just the kind of company that an investor like John Hay Whitney and a handful of other veterans should back. But what about the average investor, who can't answer the accounting questions that Memorex raises and doesn't have easy access to the confidential projections it gives its potential institutional investors? Such an investor must take Memorex on faith. The faith may be well-placed, but it involves a degree of risk—that should not be underestimated. ■

Great Expectations

THE CURRENT market collapse has been no respecter of reputations. It's not only the fly-by-night stocks that have gone into a tailspin: Along with them have gone some of the market's most respected high-multiple stocks as the list of 39 high-multiple stocks below makes clear. Why? In many instances, the market is reacting to the failure of one growth company after another in recent months to

maintain its traditional growth rate. In others, where earnings have continued to grow as rapidly as ever, the market has nonetheless revised the multiple downward, as if in disenchantment with all high-multiple stocks. So, in any market recovery, the list below should include some bargains. That assumes, of course, that the market continues to put the same premium on growth it had in the past. ■

GROWTH STOCKS

Company	Percent Change Earnings Per Share		Change in Market Price		Price/Earnings Ratio	
	5-Yr. Avg. (1963-68*)	Latest 12 Mos.	Five Years	Latest 12 Mos.	5-Yr. Avg. (1964-68)	Recent 12 Mos.
Drug & Chemical						
American Hospital Supply	17.6%	13.9%	379%	-13.7%	35	41
Baxter Laboratories	26.5	20.0	464	-13.5	37	44
Becton, Dickinson	17.7	8.0	291	-29.4	34	35
Bristol-Myers	13.2	14.7	139	-14.0	34	25
Johnson & Johnson	17.2	32.4	187	13.9	30	39
Lilly, Eli	18.2	19.1	179	12.6	29	34
Merck	17.8	8.9	142	- 6.7	32	30
Minnesota Mining	10.7	5.5	74	-18.5	31	27
Nalco Chemical	19.2	9.0	300	-31.0	30	27
Robins, A H	18.0	4.2	219	-28.5	28	22
Syntex	34.5	-47.1	8	-52.9	36	28
Consumer Products						
Avon	16.4	15.7	205	- 1.6	43	49
Int'l Flavors & Fragrances	17.2	8.0	758	5.2	38	50
Tampax	16.2	11.6	181	- 3.5	32	34
Electric & Electronics						
Ampex	12.5	-20.3	118	-52.4	29	19
Corning Glass Works	8.5	- 9.1	53	-39.8	42	25
Motorola	12.1	- 5.0	160	-33.3	27	20
Teledyne	54.7	4.6	963	-37.5	26	11
Texas Instruments	11.5	19.9	210	-40.6	36	23
Varian Associates	2.8	43.6	104	-47.1	34†	18
Office Machines						
Control Data	42.4	-53.4	132	-67.3	44†	28
Honeywell	6.1	6.8	69	-33.5	27	22
IBM	16.3	4.3	149	-15.5	39	34
Pitney-Bowes	8.0	6.4	42	-23.6	25	21
Precision Instruments						
Beckman Instruments	1.0	6.7	38	-50.0	38	19
Bell & Howell	20.9	-18.7	211	-43.3	26	18
Eastman Kodak	20.2	5.9	187	-10.3	31	26
E G & G	12.5	-	339	-49.6	41	-
Hewlett-Packard	19.1	7.4	365	-43.5	34	27
ITEK	-19.5	37.1	199	-44.0	39†	19
Perkin-Elmer	16.9	7.0	354	-42.9	31	20
Polaroid	35.9	1.6	351	-43.3	48	38
Oil & Energy						
Pacific Petroleum	27.0	15.7	133	3.1	38	40
Superior Oil	- 2.0	15.0	64	- 6.3	38†	13
United Nuclear	- 2.6	-15.9	74	-28.4	43	27
Others						
Coca-Cola	14.1	15.0	159	- 3.7	31	32
Emery Air Freight	23.3	52.4	395	2.9	42	34
Litton Industries	11.9	- 8.7	131	-46.7	32	13
National Homes	11.2	17.0	956	- 6.0	31†	40

* Base period 1962-64. † 4-year average.

TV: Is the Bloom off the Old Rose?

As far as potential is concerned, television has only started to bloom. But the networks, which dominate it today, may well be past their prime.

ELECTRONIC communication, specifically television, is unquestionably the wave of the future—as it is the wave of the present. But not necessarily television as we know it today.

Right now network TV is riding the crest of the wave. Of some \$3 billion a year in television broadcasting revenues, \$1.5 billion of it will go to network operations, up from just \$1.1 billion in 1965. Some \$1 billion of the remaining rich TV take is in national spot advertising, and a sizable chunk, \$280 million, flows to the 15 network-owned stations. Yet this particular crest seems to be receding.

It may well be that network TV stands where the mass magazines of this country stood two decades ago. In those days, the big communications market on a national scale was almost a monopoly of *The Saturday Evening Post*, *Reader's Digest*, the women's service magazines and a few brighter periodicals such as *Life* and *Look*. Combined, they had advertising revenues of \$245 million, compared with \$181 million for radio, \$41 million for the then-infant TV.

Today the *Post* is gone, and gone, too, are other long-established mass magazines. The survivors—*Look*, *Life*, *McCall's*—are grievously hurting. Even the *Reader's Digest*, which had to start accepting advertising in 1955 to help meet soaring costs, relies on its books and records division for a majority of the magazine's net income, despite a worldwide gross of more than \$400 million a year.

What's this got to do with TV? The same factors that squeezed the mass magazines are, a couple of decades later, threatening network TV. They are: 1) technology; 2) increasingly sophisticated tastes.

In the case of the mass magazines, the technology villain was TV itself, with its immediacy and live quality. Increased education and sophistication at the same time tended to fragment their mass markets.

The once-vast audiences tended to splinter into dozens of smaller special audiences, which the big magazines found it increasingly difficult to appeal to and, therefore, to deliver up to advertisers. The common denominator no longer sufficed; it had in fact become too common.

This did not, of course, mean the end of the magazine business. The special-interest magazines, as typified by *FORBES* and *Business Week*, *Sports*

Illustrated, *Scientific American* and *Field & Stream*, and the news magazines, flourished as never before; for they could both satisfy the deeper interest of their selected group of readers as well as provide the advertiser with a smaller yet more affluent audience package.

Here We Go Again?

The parallel in network television today threatens to be close. The technical changes that most affect the broadcasting networks now center around community antenna television. CATV already has been wired to 8% of the nation's TV sets and is breaking into the top 100 markets, the urbanized areas that provide 90% of broadcasting's income. Technologically, CATV offers impressive advantages in the number of channels that can be received and the clarity of their reception. And CATV is merely one example—pay TV is another—of the changes in and multiplication of communications channels that seem certain to shake network TV to its roots.

So far, the broadcasting industry

has managed to stand off some of these threats by vigorous political action (like the "Save Free TV" campaigns, waged jointly with movie theater owners, that have thwarted several pay-television experiments). But it is a very hard job, in a technologically oriented society, to keep something that is technically feasible from at least being tried. Among the things soon to be tried: Beginning next April, CATV systems having more than 3,500 subscribers will be required by the Federal Communications Commission to originate some local programs, which also may carry advertising during natural program breaks. The same FCC ruling says that the networks, which had been buying up CATV systems until recently, will have to sell them.

CATV has its problems. There are subscriber charges, usually about \$5 a month; and start-up costs for big-city cable systems can be overpowering. But since its inception in 1949 in the hills of Pennsylvania, CATV has developed into much more than a relay system for TV fringe areas. This year, systems are being installed in



Videoized. Rube Goldberg's idea of a living room taken over by TV gadgets may seem a bit much. But the means have arrived in the form of 32-channel cables, the airwaves and video recording units.

Michigan with up to 32 channels. "The relay is only 1% of CATV's value," says Sylvester (Pat) Weaver Jr., former president of the National Broadcasting Co. and now a broadcast consultant. "But the cable itself has a 99% value, for all kinds of other services—including the delivery of printed materials, shopping, burglar alarms and all the rest. And you can leave an inferior 525-line service and go to a superior 1,000-line picture using wall screens; a real home theater. . . . Such a home communication system can give the promise of revelation to every man."

Some industry observers minimize the threat of technical wonders and blame politics for current unsettling developments: "They're ganging up on television in Washington," says Les Brown, broadcasting columnist for the show-biz trade paper *Variety*. "There's been enough action down there to shake everyone to his boots," says Dan Del Rio, broadcasting analyst for the brokerage firm of Delafield & Delafield. President Frank Stanton of the Columbia Broadcasting System puts it in broader terms: "The networks shook people up by showing them vividly what's going on in the ghetto and in Vietnam. Naturally, some people don't like the messenger." In FCC Commissioner Nicholas Johnson's view, consumer thrusts such as the antismoking commercials have had a telling effect: "When people get a glimpse of what television really could be, they become dissatisfied and then outraged."

The reasons don't matter. The trend does. Like the magazine industry before it, the world of television is being transformed. The coming of CATV and other expansions of communications channels—including even the brisk growth in two-set and three-set families—have gone hand in hand with an increasing degree of audience fragmentation.

"The Big Three networks," says *Variety*'s Les Brown, "have a real problem with demographics. Many of the audiences have grown older with the shows. Advertisers don't want to pay \$4.50 per thousand [viewers] and get a bulk audience when they're after younger trade." He means that it might be more economical for advertisers to pay twice as much per head to get half as many people—but the right people for their products.

Television can deliver a mass audience, of course—30 million or more watching a single network show in prime time. But as David M. Blank, CBS' vice president for economics and research, showed in a recent analysis, it is really the older homebodies in this mass who watch TV. Adults 50 and over, says Blank, view 15% more



The Lone Ranger, first heard in 1932 over Detroit's WXYZ, was locally conceived and produced. It made millions for WXYZ owner George W. Trendle. The networks have taken over programming since then, but there are recent signs the pendulum is swinging back.

than their numbers would indicate, and those 35 to 49 view in proportion to their numbers. But adults under 35 watch TV 15% less than their numbers. Package goods advertisers, however, often want to reach those under 35. John Scott Keck, programming director for the big advertising agency Needham, Harper & Steers, notes: "These days, if a show isn't hot in Nielsen ratings, it almost has to be skewing toward a younger audience to stay on the air."

Concern about audience age was behind this season's bumping of Jackie Gleason and the forced shift of Red Skelton to NBC. New shows were substituted like "Headmaster" and "The Storefront Lawyers." And the main rating company, A.C. Nielsen, has agreed, for the first time, to break down audience figures regularly into five age groups so that advertisers can see exactly where their programs are penetrating.

If Washington did not start the fragmentation, it is certainly helping it along. The FCC has now finally adopted a rule that, beginning Oct. 1, 1971, no local station may devote more than three of the 7 p.m.-11 p.m. prime time hours to network shows. Further, the networks will be required to sell off their program syndication units, and will be blocked from retaining subsidiary rights in programs.

These moves, together with the CATV changes, should force TV outlets into considerably greater amounts of independent local programming. It may be better programming. Or it may be worse. But it is certainly going to be different programming. Donald H. McGannon, president of Westinghouse Broadcasting Co., is itching to provide the local markets with shows. He's called in people like Dr. Margaret Mead, the anthropologist, and Harold Hayes, the editor of *Esquire*, to advise. And McGannon believes that opening up of prime time will draw a



Goodbye, Folks. Collier's, The Saturday Evening Post, The American and Coronet (since revived) all won mass audiences. But high publishing costs, changing tastes and TV's broad sell did them in.



Frosted. That's what TV cynics thought Englishman David Frost would be with his talk show. But programs like the debate between Vice President Agnew and

college students have kept Frost in contention with similar network shows. Westinghouse Broadcasting has now syndicated Frost to 75 local stations.

number of young, creative filmmakers into the television production business.

The advertising agencies, which have lost out to the networks and big movie studios as program packagers, would like to move stage center, too. And increasingly they are going in with their own shows to barter directly with local stations for air time. Young & Rubicam, for example, has found acceptance for its "Galloping Gourmet" show, and now has five other projects in the works. And the Corporation for Public Broadcasting (see box, p. 38) kicked off its first real season of 19 shows this fall and plans to call on broadcast professionals for more program advice.

No Smoking

The change in the prime-time rule will in most cases cause the networks to cut back their program feed by only one-half hour. But the loss in revenue is estimated at \$60 million to \$70 million. And it will come on top of the \$236-million annual loss of network cigarette advertising which will take effect Jan. 2.

It is true that the loss of cigarette advertising will soon be at least partly offset ("fortuitous timing," CBS' Stanton calls it) by the smaller number of prime-time hours up for sale; and partly as a result, RCA's NBC network claims to be nearly sold out, at \$33,000-\$65,000 per commercial minute, for this season. "We're replacing much of the cigarette advertising with products we've never handled before," says Julian Goodman, president of NBC. "We're going heavy into retail chain stores [Sears, Roebuck is expected to spend \$30 million on TV ads

this year], charge cards, insurance companies and bank advertising."

Overall, in spite of these setbacks, network TV revenues will rise about 3% this year. Network executives take comfort from this gain in what is, after all, a recession year. But it is also true that this gain is puny compared with 1969's 11% gain, or 1968's 10%. It is also true that the full impact of the increase in local programming will not be felt until 1971, and none of the cigarette loss will be felt until then. To search out the accounts Goodman was speaking about, the networks have organized new-business departments. But only one, ABC, has reported new business contracts, and these for \$3 million. "I don't think there's much that's gone untapped," says Keck. "That leaves a lot of difference yet to make up for the cigarette advertising loss."

Bernard P. Gallagher, whose marketing newsletter has often sent tremors through Madison Avenue executive suites, believes the broadcasting leaders are shutting their eyes to reality. "They're in big trouble," he says. "If people knock off cigarettes, what's to keep them from knocking off the air proprietary drugs, cereals, hair dyes, autos and all kinds of other products on which TV depends?"

Gallagher is just as pessimistic about the effect on the networks of the new prime-time rule. "I think commercial television is in for a big tumble on the programming side," he goes on. "It may happen rather quickly, perhaps in the next two or three years. The networks may be left mostly with sports and news events."

All these pressures, along with an-

other new FCC rule limiting new broadcast owners to one unit per market, have made themselves felt already in that most sensitive of indicators: the price of TV stations. For nearly two decades, station prices rose in a steady spiral. For example, L.B. Wilson, Inc., took over WLBW-TV in Miami in 1961 for \$300,000. It was sold last year to the Washington Post-Newsweek Stations for \$18.4 million. KTAR-TV in Phoenix was purchased in 1954 by KTAR Broadcasting for \$251,000, but Combined Communications Corp. paid \$15 million for the station in 1968.

Splitting Stations

Now the market is topsy turvy. Capital Cities Broadcasting recently took \$1 million less than originally promised for a Philadelphia radio station after local investors couldn't meet the \$12.5-million sale price. And FM radio stations, once thrown in for virtually nothing with an AM, now go for a premium. United Artists Broadcasting recently purchased a Philadelphia FM for \$950,000 even though it was off the air at the time. And two oil entrepreneurs recently picked up a Los Angeles FM, KCBH, for \$1.6 million, a record, for an FM radio outlet.

Some of the big owners, who hoarded their stations for decades, are beginning to disgorge them. "Buyers are hard to find," says Howard E. Stark of New York, a leading station broker, "and we are selling off stations one by one rather than in packages." For example, Walter H. Annenberg's Triangle Publications recently shed three

(Continued on page 37)

We've made sure we can never lose our shirt.

Every wide-awake company knows it has to protect its future.

Some do it by concentrating—one basic product line for a basic, major growth market. (As long as you know your business better than anyone else, you can't get hurt.)

With others it's just the opposite—safety in numbers. Many markets, many product lines. (As long as you back more winners than losers, you can't get stung.)

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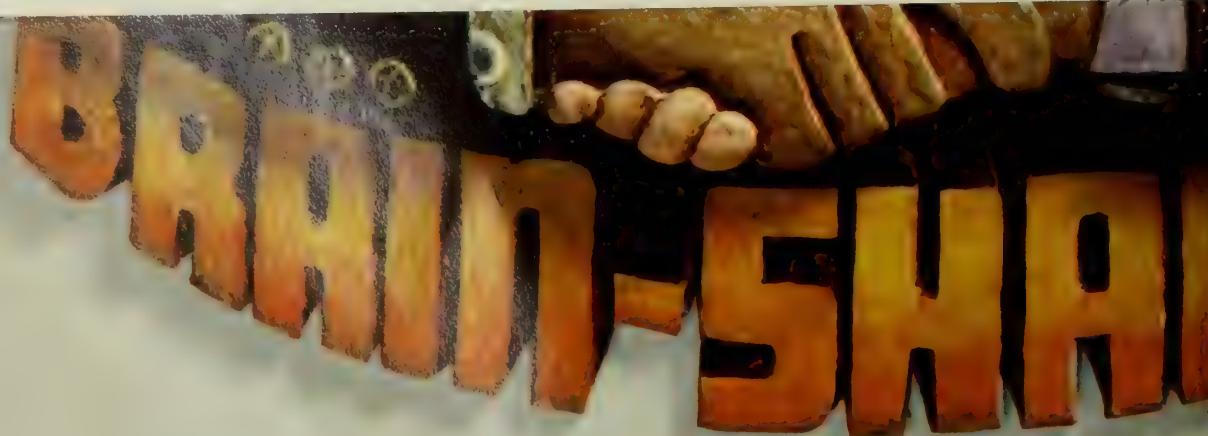
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With an illustrious past and an ever brighter future. A mile-high cultural and commercial center where Phelps Dodge works at making it happen.

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For almost 100 years, "Phelps Dodge" and "Copper" have gone hand-in-hand the world over. Today, Phelps Dodge also means aluminum.

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Supplying modern aluminum products (in addition to a full line of copper and copper alloy products) is our forte. Wherever you look, you'll find Phelps Dodge high and low voltage power cable, building wire, electrical conduit, coaxial cable, telephone wire and cable, magnet wire, condenser and heat exchanger tubes, plumbing pipe and tubes, valves and fittings...all our products at work everywhere.

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dodge**

Copper, Aluminum & Alloy Products

(Continued from page 30)

TV and six radio stations to Capital Cities for a total of \$110 million. Then Stark stepped in to act as broker when Cap Cities, because of FCC ownership limitations, disposed of two TV and six radio stations.

"In most cases they went to individuals," says Stark. (For examples, see box, p. 40.) "A former station employee got the AM in New Haven, and the FM went to the station manager. The radio stations in Fresno went to different California residents. These are the types of owners that they [the sellers] thought the FCC would approve of."

Triangle is by no means the only group owner that has been selling off numbers of units. Storer Broadcasting is in the process of selling its five FM radio stations to three different buyers. Metromedia is giving away its costly UHF television station in San Francisco to an educational broadcasting group—but at a figure that will get it a substantial "profit" from tax savings. And the word is out in the industry that Time-Life Broadcasting wants to sell off its radio stations and use the money to expand in CATV.

For the big networks, all this is doubly ominous. Although they are limited by law to five VHF-TV stations each (plus two UHF-TV, seven AM radio and seven FM radio stations), they generally own their stations in the biggest and richest markets. These stations are known as O&Os (for owned and operated). The 15 television O&Os owned by the three major networks are immensely profitable; they netted \$133 million last year on revenues of \$323 million. These profits, in fact, accounted for 60% of total network profits of \$226 million. Whereas the networks netted only about 12 cents on the sales dollar from their network operations, they earned a rich 40 cents-plus from their O&O stations.

The problem is this: If network broadcasting declines in importance, the O&Os may become less important in their markets and more vulnerable to competition from non-network stations. Finally, there's the danger—distant at the moment but present all the same—that one day the FCC may move against chain broadcasters. On Chairman Dean Burch's docket is further rule-making that would split up present broadcast complexes and require that owners hold only one television, AM or FM station per market. The commission also has expanded its probe of broadcasting conglomerates. While now tuned in on the problems of reciprocal dealing, it could blossom out in much the same way that the Justice Department's attack on the



On The Spot. TelePrompster's Manhattan CATV unit covers Irish football in Gaelic Park, clearly for a special audience. But this year cable will follow pro basketball, too.

manufacturing conglomerates did.

Whatever they say for public print about the future, the networks have been saying something different with their money. They are paying more attention these days to their activities outside of direct broadcasting. CBS recently formed and is spinning off a separate company to handle both its extensive CATV holdings and program syndication. "CBS is much more than broadcasting these days," emphasized Frank Stanton. Most recently the network has been buying up vocational and business schools to tie in with CBS' publishing firm, Holt, Rine-

East & Winston. Some 60 schools may be purchased. William Paley, CBS chairman, and Stanton hope for a 50-50 mix between regulated and non-regulated operations.

ABC continues to creep up on the audience advantages of CBS and NBC, and President Leonard Goldenson is looking again to ABC's 418 movie theaters. Once something of a millstone, the old downtown movie palaces are being replaced with smaller suburban houses. NBC, meanwhile, is pushing its records division and is

vying with CBS to introduce practical cartridge TV and video recording units for home use (*Forbes*, July 1). While NBC is the traditional heart of RCA, the parent seems to have its eyes focused elsewhere. RCA is still trying to make its computer operations into a winner, and this year acquired firms as diverse as frozen food and real estate companies.

With broadcasting caught in many crosscurrents, it seems certain that the biggest targets, the networks, will suffer most. As the industry leader, CBS

is probably the most vulnerable. Despite acquisitions and spin-offs, broadcasting still contributes more than 60% of its \$1 billion-plus in revenues. And its O&O TV stations, notably the one in the Chicago area (WBBM-TV), have been losing market share. To shore up the broadcast division, D. Thomas Miller, an ex-station manager, last month was named president of the CBS-owned stations. ABC has a new TV broadcasting head in Elton Rule. Also vulnerable, because so much of their profitable production is tied

1970's Big Winner

THESE DAYS, if a commercial broadcaster is having trouble selling his TV station, he may find bids coming from the oddest places—like from that weakling down the block, the educational TV operator.

Yes, the stepchild is growing up and flexing his muscle. Slowly but steadily, he's getting more and more of the funding he needs from a reluctant Congress, the big-name foundations and from thousands of people out there.

"Why, we even had some people out in L.A. who raised \$21 million to buy a commercial VHF station—and that's a tough market, you know. They couldn't get a sale, but I suspect we'll see more of that," says John W. Macy Jr., the career civil servant who became the first president of the Corporation for Public Broadcasting.

Macy has some reason to crow. He has just released data that shows educational TV—or "public broadcasting" as it has now been repackaged—actually increased its audience ratings in 25 large cities by 42% in a single season.

"We believe we have to promote our product as professionally as anyone else," Macy says in the slick corporate headquarters that CPB leases just one block from the White House. This suddenly healthy industry within an industry will have its advertising handled by a hot Madison Avenue agency, Wells, Rich & Greene, Inc.

Noncommercial TV has always been hooked on appealing to special audiences—a Manhattan executive recently found his wife plunked down in front of the set for five straight hours, not for soap operas but for live coverage of championship tennis. The fact is that today's educational product is making a conscious effort to entertain. Nowadays it merits serious attention in the largest mass-circulation magazine in the country, *TV Guide*.

Writing in that magazine recently, social critic Cleveland Amory made a telling point when he pointed out that "the 1969-70 season will go up in history for one thing—it was the year when educational TV came of age . . . elsewhere around the dial, the times, as the song tells us, were a-changing. On many an old show, the legs were going and age was showing. The 'Ed Sullivan Show' was still telecast live—but you had to take their word for it."

And in a September preview issue, the same weekly concluded simply that "public TV, the home of 'Sesame Street' and 'The Forsyte Saga,' is out to lure more viewers away from commercial channels this season. . . . For the first time the public stations will be part of a genuine network that will offer a full schedule of prime-time programs five evenings a week nationwide."

Everyone agrees, including Macy, whose government-supported corporation helped in the funding, that last season was "the Year of Sesame Street." "No question about it," says

he, rubbing his gray crew cut as if for luck. "We were out there diversifying and trying to raise the quality of our programs, but 'Sesame Street'—that was the great leader. Now some congressmen are asking me: 'Okay, but where's the 'Son of Sesame Street?'"

The petite woman who put the name *Sesame Street* on everybody's road map, Joan Ganz Cooney, says: "We in noncommercial broadcasting found that educational programming need not be grim." Grim it wasn't, with 6 million children tuning in every morning or catching repeats in the evening. Even commercial outlets in major markets such as New York signed up the educational product—despite the fact they can't interject cereal commercials every five minutes or so. This season "Sesame Street" will air on possibly 200 stations, the most for any series, anytime.

With its own network now, public broadcasting is branching into regionally produced shows that could have national impact. Last season, for instance, they were impressed when a tiny station in Orono, Me. put on a Down East storyteller to spin yarns every week in what was about the only true country humor on television. This year Negroes will find they had their own western heroes, as "Black Frontier" starts. And Ralph Nader will report to the viewing public regularly for the first time.

"Based on ratings commonly used by the commercial networks," John Macy reports, "the evidence suggests that public television's audience for a certainty stands at least at 45 million persons."

The signs are, then, that the traditional tastemakers of TV are finding that the nation is in the beginning stages of the same sort of "mass vs. class" battle that has been rocking the popular magazines for over a decade now (*see story*).



to network programming, are the big moviemakers such as Metro-Goldwyn-Mayer, Columbia Pictures Industries (Screen Gems), 20th Century-Fox, Walt Disney and MCA, through its Universal Television Division. As if to foreshadow some rough days to come, most of the moviemakers—excepting Fox—filed a Federal court suit to make CBS and ABC stop producing films. The networks, they claim, offer unfair competition. But the networks answer that it's the moviemakers themselves who want to control the program market. They already provide, for example, 30% of the prime-time entertainment programming on CBS.

While the explosive growth of group broadcasters appears finished, some of the more flexible ones, such as Westinghouse, Metromedia and Capital Cities, may discover fresh life—especially if they can create interesting new programs as more prime time opens up for the independents.

The important question is whether interesting shows can be brought in economically. Goldenson of ABC believes that "the public will be up in arms that they're being deprived of programming better done by the networks." And present-day programming costs are high. A one-hour situation comedy or spy drama can run \$300,000. But the independents are confident that shows of quality and audience appeal can be turned out for a great deal less than that—possibly for half that much.

Ready for Wire

The electronics manufacturers and the cable companies, of course, are itching to take advantage of any new era in broadcasting. The recent merger of the largest cable firm, H&B American, into the fourth-biggest, TelePrompster Corp., now gives TelePrompster a foothold in 29 states. But while the CATV companies are spreading across state lines, the FCC is responding by trying to bring all cable activities, from programming to ownership, under its eye.

The influential Electronics Industries Association, representing 300 manufacturers, is restless about its idea for a wired nation, which would end over-the-air broadcasting as now practiced. Since last October the FCC has been considering EIA's proposal to permit two wired telecommunications systems throughout the country. One, a switching network, would combine picturephone, facsimile and computer information gathering operations. The second, a Broadband Communications Network (BCN), would be aimed at providing broadcast TV, mail services, library material, educational offerings

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Coates & Co. is initiating limited advertising in America for its crisp, extra-dry 94.4 proof English gin.

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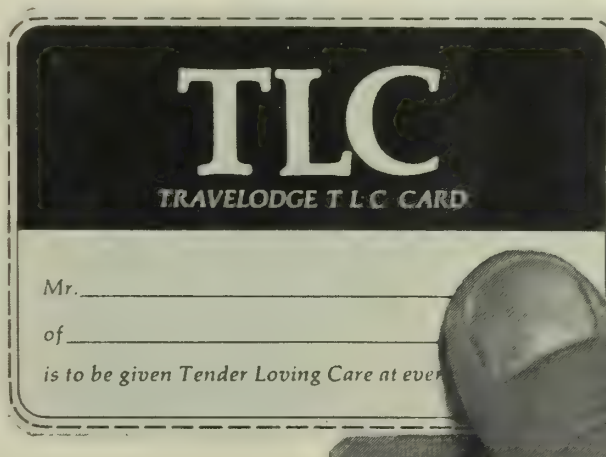
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TRAVELODGE



and a wide variety of printed material. EIA says it now has 20 firms, including Magnavox, the Los Angeles Times-Mirror and Encyclopaedia Britannica, interested in pushing the project along. They are considering launching, for \$20 million, a pilot BCN that would combine both corporate and individual stockholders. "We see it as a kind of a private Com-

sat," says John P. Thompson of consultants Arthur D. Little, who led the wired nation study.

However disturbing all this is going to be to a good many businessmen, it is probably going to make U.S. TV something a good deal better than it is today. McGannon, Westinghouse Broadcasting's bright, iconoclastic president, says flatly: "People

are just marinating in front of their TV sets today." McGannon means—and many people vehemently agree with him—that TV is behind in technology, in keeping up with people's tastes and with TV's educational and entertainment possibilities.

As we said in the beginning: TV is the wave of the future, but not the TV we know today. ■

The New Capitalists of Broadcasting

THE SPLIT-UP now in progress among established broadcasting combines is making owners out of former employees who never expected to have a piece of the action. Here are three examples:

George A. Koehler, 49, came out of World War II service as a bomber pilot and quickly joined Triangle Publications' WFIL in Philadelphia because he liked broadcasting. The job in the special events section "was just one step above mail boy," Koehler says. He worked his way up the Triangle ladder to



George A. Koehler

head the radio-TV division. But George Koehler never thought he would be up to his ears in a \$16-million deal promising to lead him to the ownership of three television stations.

Now he'll become a broadcasting capitalist when, as expected, the Federal Communications Commission approves the transfer to Koehler of licenses for WNBF-TV in Binghamton, N.Y., WLYH-TV in Lancaster-Lebanon, Pa. and WFBG-TV in Altoona. He's learned their operations well as part of Triangle's complex of 16 TV and radio stations. "But I've only had programming and administration problems to think of before," Koehler says. "Now I'm kept awake at night by finances."

Well he might. Koehler's takeover depends on several financial

twists. First, Triangle's owner, Walter H. Annenberg, U.S. ambassador to England, has to complete his sell-off of nine TV and radio stations to Capital Cities Broadcasting Corp. Koehler gets the remaining seven, but has to dispose of four AM and FM radio stations. He has found local owners to buy them for \$1.5 million. This leaves Koehler with the three TV stations for \$14.5 million, a good price, he says, since they'd been valued at \$20 million. Terms are 29% down and the balance in ten years, providing Triangle, which still owns the profitable *TV Guide*, with a nice stretchout for tax purposes. (If the down payment is over 30%, Internal Revenue tends to regard the total profit as having been earned the year of the sale.)

A part of the acquisition that excites Koehler most is a closed-circuit TV system in Lancaster's new Park City Shopping Center. It includes a studio and 40 color monitors. "We'll originate programs right there, even sell time," Koehler says. "It will be a kind of Muzak with pictures."

Robert Herpe figures he's riding a fresh broadcasting trend, too—the upswing in FM radio. Herpe has been general manager of Triangle's WNHC-FM in New Haven, Conn., but now he is able, for \$125,000, to buy the station as Annenberg unties his big broadcasting com-



Robert Herpe

plex. "FM is breaking through," Herpe believes. "Youngsters are listening very, very strongly, for this is where their music's at."

Herpe knows that Annenberg paid virtually nothing for the FM when he picked it up in 1956 along with the New Haven television and AM radio station. But he likes the terms, which are 29% down, eight years to pay, and with interest at the prevailing prime rate. "I'm going to give it a real try on my own," Herpe says.

W. Richard Martin, 45, saw his chance to become a broadcasting capitalist when Robert Levinson, a Cincinnati entrepreneur and owner of WCMI-AM-FM in Ashland, Ky., decided this year to sell off his broadcasting properties and devote time to other business interests. The AM is going for \$350,000 to local



W. Richard Martin

Ashland people and Martin is buying the FM for \$50,000. He has been general manager of the FM since giving up stock brokerage five years ago. FM radio shows new promise, he believes. Despite competition from eight other area radio stations, Martin says the FM unit is in the black. And he's drawn eight other investors into the deal to provide capital for a new studio and other possible expansion. "When we get WCMI-FM on the road, we might well look around for stations elsewhere," he says.

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Why Not Start a Bank? Or a Candle Factory? Or Make Key Rings?

*That's exactly what FORBES found a number of "retirees" doing.
Instead of ending their careers at 65, they simply began new ones.*

RETIREMENT, a blessing in theory, has turned out to be a curse for many businessmen. They soon find that playing and leisure aren't much fun except as part of a busy life—not as a substitute for it. Today, many smart retirees have found a way out. They treat retirement not as the end of a career, but as a time to start a new one, often in a new field.

"You can't fish seven days a week," maintains a retired lawyer who now makes flagpoles. Adds a 70-year-old ex-Grand Union vice president, now owner of a successful real estate and development company: "On my doctor's advice I retire twice each day during working hours for a 30-minute rest." A retired showman who recently opened Cape Cod's first new bank in 58 years: "One thing this did was get me off the phenobarbs. I never felt better in my life."

Talking to men who made a success of their lives, and have gone on to make a success of their retirement, FORBES has found some warnings and guidelines for retirees. Some of them are so obvious they get overworked by many of the thousands of executives who retire each year.

"You've got to have something to do that you like, something that challenges. It can't be something that comes too easy," insists John K. Davenport. Driving through the Wrinkle Point retirement community that he developed near Hyannis Port, Mass. Davenport ticked off the names of who lived in which homes. The companies from which those men came were among the biggest in America.

Makes His Own Hours

"One of my friends was buying a house here—we've sold them all now—and I said: 'Homer, get an office and a phone downtown, even if it's only somewhere to go to open your mail.' So he had his mail sent there, then he began calling people up on the phone. He had been a banker, and now he negotiates private loans in this area on behalf of his former employer. He calls the shots, makes his own hours and still has time to relax. That's retirement at its best."

Davenport's own story is that he retired to the Cape 15 years ago and bought a large parcel of desirable property. "I thought I'd sell a bit each year, like an annuity. The value of the land would be appreciating even if



Glowing Retirement. Candlemaking, usually a hobby, became a new career for retired CATV pioneer Wilfred Reiher, 66, of Sun City, Ariz. Reiher, who shies away from traditional retirement pursuits like golf, gardening and fishing, started making candles as Yule gifts. Now they're selling in 12 states, and he's thinking of moving near his Phoenix factory.

the value of the dollar wasn't." But putt-putting around in his boat and playing golf wasn't enough. Instead Davenport developed the land into Wrinkle Point. His latest project was the co-development of the brand-new Cape Cod Mall which opened in August in Hyannis Port—complete with topnotch stores like Filene's (of Boston) and Sears.

A mile down the road is the Merchants Bank & Trust Co. Lawrence Laskey, once a partner in Loew's Theatres, is a bank president in white ducks and a green blazer. He greets all customers, loads them down with ballpoint pens, key rings, maps, banks for the children and a Kennedy half-dollar to go into the bank. Merchandising banking is taking the myths out of it, Laskey believes: "We've got an accountant and a lawyer here every Saturday morning to advise retired people about their problems. Most people are a little intimidated by a bank—but not by this one." Opened 14 months ago with \$750,000 in assets and a handful of accounts, the bank now has better than \$9 million in assets and 5,000 accounts.

But Merchants Bank & Trust is a child of Laskey's post-retirement years. "I retired in 1963, when I was 56. But I got bored, started to dabble in res-

taurants and things. Then I thought: 'What about a bank?' I didn't know anything about banks. But why not?"

Both Davenport and Laskey agreed that in retirement one should dare to do things, not by gambling all you've got, but by gambling a little of it in something that commands one's interest and enthusiasm.

A Time To Create

"Retirement may be the first chance at creativity some people have, and certainly their last," says Wilfred Reiher, 66, who developed one of the first cable TV networks in the U.S. His legal fight over the television signal when building up his Twin Falls, Idaho company in the Fifties, known as the Signal Rights case, is a landmark in cable television history.

Reiher talked in his busy candle factory in Phoenix' (Ariz.) industrial area about his retirement. "I don't play golf, can't hold a hand of cards and my wife has always mowed the lawn. I had to have something." "Something" was making candles for Christmas gifts for relatives and friends. He rethought the whole process, designed and developed new and quicker ways of making candles, "then I gambled, and opened this place, and I've no regrets."

"This place" is Candle World, 'a sweet-smelling apothecary's workshop where gutted IBM and GE computers provide the intricate machinery that makes his machines work; where institutional soup tureens bubbling with wax on top of household stoves provide their own Rube Goldberg touches. But the candles sell. "We're in 12 states now, after a year, and the only thing preventing nationwide distribution is that I want to make sure I can handle the production." He and his four employees are now turning out almost 500 candles a day. His Apollo 11 candles were used at a recent reception for President Nixon in Los Angeles.

A resident in the much-discussed Del E. Webb retirement community, Sun City, Ariz., Reiher is thinking of moving into Phoenix to be closer to his factory. "I'm spending too much time driving when I could be here."

Retired Phoenix postal employee Francis Ervay, 66, with an eye to the many retirees who flock to the Phoenix area, two months ago formed Retirement Achievements, an association he hopes will find outlets for the ideas and aspirations for many retired people. Determined to pull together the retired to offer professional consulting and advisory services, to create small

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new businesses, teaching groups and job opportunities, Ervay is currently meeting with local banks to see if they are prepared to indulge in "venture capital for the retired." Says Ervay: "America now has its first relatively independent retirement generation, living a third of their lives coping with retirement. All that many of them need is the opportunity and encouragement—they've got the experience and skills of a lifetime."

Quiet in the hot August sunshine, Sun City's streets were uncluttered by cars, people or litter. But even this much-disputed form of "golden years" living has its own beehives humming in the tranquility. Busy assembling belts, key rings and novelty items from imported parts, a retired railroad engineer builds up a stock of goods that gives him something to do all summer: He travels down the West Coast selling the items to retailers. "He's built up a flourishing business from nothing since he came here," said a neighbor. "He takes time to produce a solid item, like a silver-dollar key ring. Feels good, looks good, people buy it."

Eighty-two-year-old Dean Babbitt retired in 1946 as president of Sonotone, the hearing-aid company. Now a Sun City resident who is active as

a consultant to banks and in dickering with inventors, this tall, spry octogenarian has in retirement been involved in a dozen ventures from farming to manufacturing. His study has one wall covered with photographs of former business colleagues. He talked about those still living, those long dead. And his philosophy was that until nature pulls the rug from underneath you, stay interested. "I meet men here who have been the biggest names in business. They've given up. They are shells of their former selves. They've nothing to live for. You have to find something that challenges."

And Memoirs Too

Babbitt's current project is writing his memoirs from materials in the files around his study. "It's not for publication," he smiled over a drink, "but for the family. One day one of them might be interested." From another wall photographs of children, grandchildren and great-grandchildren oversee this latest project.

Cleveland lawyer George Rager retired to Boca Raton (Fla.) in 1961. Always a keen fisherman and hunter, he bought a house with a dock to learn saltwater fishing. But he wanted a flagpole in front of his home, one that could withstand Florida hurri-

canes—and nobody could tell him where to buy one. So far, his factory in a Boca Raton storefront has turned out 1,400 flagpoles. "I could build more, but it's the quality I'm interested in. One thing about retirement is that you don't want to do less than your best." About retirement in general, Rager insists a man "has to feel he's contributing something. He's got to be useful. Most of us sit down and become parasites, consuming but not creating. We have to start preparing for retirement much earlier. I've had a man in here, president of one of the most prestigious organizations in the country—everyone would know it—who came in and begged me to let him come here every day to sweep the floor. Just for something to do. We've got to plan better."

That theme is dear to the heart of Dr. Henry Kessler, 74-year-old head of the nonprofit Kessler Institute for Rehabilitation in West Orange, N.J. Dr. Kessler laughs about the insurance salesman who tried to sell him a retirement annuity. The conversation went like this:

"Why don't you start to take it easy, Doctor?"

"I do," said Kessler, who has given up his private practice on his doctor's advice and lives with the

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memories of two minor heart attacks.

"But you could take time to write a book," insisted the salesman.

"I have, between patients," said Kessler (author of eight technical and nontechnical works).

"But think of the traveling you could do with a guaranteed income, Doctor." Kessler, one of the more internationally decorated orthopedic surgeons, explained that he traveled enough as it was.

"Well," said the annoyed salesman, "don't you want to give it all up?"

"Giving it *all* up would be certain death," Kessler told *FORBES* recently. "What's needed are ways to show potential retirees how to hang on to some of it. Corporations and businesses should start when their employees are in their 40s and 50s with retirement seminars. People who have retired successfully should be brought in to explain retirement. Corporations should have retirement counselors for their employees, just as high schools have guidance counselors."

Bored Ex-Executive

Larry Laskey in Cape Cod told about advertising for four retired men to work part time visiting customers to see if the bank provided what they needed. "It was a very humble job,

with very low salary, offered just for three days a week." More than 150 former top executives applied: "They needed something to do. Not golf, not fishing, not painting, not ceramics. Something they'd done before."

In Hemet, Calif., a town of 7,900 people, retired engineers formed a nonprofit corporation, Experience Inc., which contracts, consults and builds like any other engineering firm. "People with high levels of professional skills shouldn't just stop," said Harold Holmes, president. "They should gradually wind down."

It's obvious that winding down isn't enough—on its own. There must be something to hold the retirees' interest. Adman Elmer Otte, 60, of Appleton, Wisc., who has just written a book, *Rehearse Before You Retire*, spent ten years studying retirement life and its myths. He offers two basic ground rules: "Don't let retirement creep up on you, be sure you've planned ahead. Don't retire *from* something, retire *to* something."

This year he started his own post-retirement company, Retirement Research, which published his book. "Even when you're prepared, it's very difficult," says Otte. "Even the most sophisticated people can get befuddled by the traumatic experience of

stopping what they've been doing all their lives. Those who enjoy retirement are those who anticipate getting something out of it—and they probably live longer too."

What's Available?

Finding something to do isn't necessarily as difficult as it might seem. The federal Small Business Administration has a program, SCORE (Service Corps of Retired Executives), which gives men an outlet for their experience—and a challenge.

Howard Levy, 65, of Bloomfield, N.J., a retired men's apparel merchandiser, worked through SCORE to help a young black businessman start a men's store in a blighted section of Jersey City. Not only did the store open, but after 14 months the business is so profitable it is expanding. The unexpected twist is that other retailers, who had considered the location as one offering little future, are considering opening up there too.

Nor do SCORE's men only involve themselves with new businesses. Earl Koch, 74, of Cincinnati, Ohio, retired owner of two small manufacturing companies, was asked to help a firm which wanted to go into bankruptcy but didn't know how. Koch wasn't content to help them go out of business—

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he helped them bounce back. Now, 16 months later, the business is successfully in the black.

Another program intent on capturing the experienced retired executive is the International Executive Service Corps (IESC) which sends them on short-term assignments abroad much as SCORE plugs people into domestic assignments. Also some of the IESC execs are mid-career men able to take a few months' leave of absence for an assignment, so they experience the type of "rehearsal for retirement" upon which author Otte insists.

Arthur Lerps, of Eastchester, N.Y. had been with R.R. Donnelly as a sales representative for 40 years when he retired at 58 in 1963. "I retired because I was doing too much running around," Lerps told FORBES. "After a few months I wanted back in again." Lerps went to Costa Rica for IESC on a printing project. After that it was Singapore. Now he recruits other executives for IESC. "Before you retire you moan about never having enough time. When I retired I finally had the time, but felt guilty about wasting it." From across his desk at IESC's New York office, he peered pensively. "If you stand still, you go downhill."

But the trend in retirement seems to be running counter to the need.

Just as it is becoming increasingly apparent that a busy man is a healthy one, the businessman is looking for ways to retire in his mid- or late fifties. And for many, the final upshot is a second career.

Fishing Isn't Enough

O.L. McKenney, 60, of Palm Springs, Calif. retired from the race-track and restaurant business at 54. "My children were grown, I felt I could take things easy from then on. But I was bored beyond belief. Retirement just didn't pan out the way I thought it would. I went fishing a lot, but that wasn't enough. After six months, time hung on my hands."

Then, he learned that the local tramway was in trouble. "The trouble was both financial and managerial—it seemed like a tailor-made challenge," he said. Now McKenney is general manager of the Palm Springs tramway. Things are looking up for it—and for him. "Perhaps at 65 I'll retire for good—but I'll have much more to keep me active if I do. And traveling will be an important part of it."

That second career might be something as restful as guarding lions. Alfred H. Foxcroft, former regional sales manager for Smith Corona, retired to Leisure World-Laguna Hills,

Calif. to head an organization called Senior Talent Active Reserve Services (STARS). STARS is a job clearing-house for its 95 members—whose ages range from 50 to 80. The lions? Two members are tower guards at nearby Lion Country Safari.

The moral of all this seems to be that the first decade after retirement should be the period of adjustment—gradual assimilation into a new, less-demanding life. True retirement, a life occupied mainly by sedentary pursuits, should not really be considered until the middle 70s at the earliest. According to the restless retirees FORBES met around the country, it is only at that age that the mind and body are ready—assuming disabling ill-health is not present—for "a little fishing, a little golf and a little work in the garden."

Until then, most men who have led active lives just aren't ready to stop, not at 65. They are happier running campsites in Arcadia National Park, Me.; interior decorating in Florida; fund-raising for hospitals, and all the while still finding time for the travel, sporting, artistic and social pursuits that retirement offers.

As lawyer Rager put it: "A fishing pole and a monthly income isn't retirement. Not for me anyway." ■

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The Odd Couple

Can a marriage of convenience turn into a love match? In Marcor's case, it may be doing just that.

THE CONGLOMERATE TAKEOVERS of the late Sixties produced a backwash of so-called friendly mergers—marriages of convenience in which one or both partners were desperately seeking a haven from raiders. One such merger, between Montgomery Ward and Container Corp. of America, in October 1968, resulted in Marcor, Inc. The merger succeeded in its immediate objective of sheltering both companies from takeovers, but it was as hastily arranged and as unlikely looking as many of the conglomerate deals themselves. How, on its second anniversary, is Marcor making out?

During 1969 Marcor reported excellent sales and earnings gains, largely because Montgomery Ward was still recovering from two poor years in 1966 and 1967. This year Container Corp. is doing well enough: Its profits are slightly ahead of last year's, in a year generally poor for paper and packaging companies. But thanks to a number of problems at Montgomery Ward, Marcor's total earnings for the six months ended July 31 were down by 14% to 61 cents per share, despite a 3% rise in sales to \$1.3 billion.

Question

In short, Marcor, like most companies, is in a profit squeeze. Beyond that, though, is the bigger question: How do you make sense out of a purely financial merger? Can a marriage of convenience turn into a love match?

The simple fact is that, other than being based in Chicago, the two companies had almost nothing in common.



With 1968 sales of \$469 million to Ward's \$2 billion, Container was far, far smaller. But it *was* the leader in its market (folding paperboard cartons) and it boasted an enviable growth and profitability record. Ward, by contrast, was still struggling in 1968 to overcome the growing lead of its archrival, Sears, Roebuck. It netted less than 3% on equity in 1967 vs. 16% for Sears.

Leo H. Schoenhofen (above), Container's president at the time, had turned thumbs down on a merger with

Ward when it was first proposed in 1967 by Ward's Robert E. Brooker. About a year and a half later he changed his mind. Schoenhofen, an easy-going 55-year-old pragmatist who succeeded Brooker as Marcor's chief executive last May, says: "We went into this only after we had convinced ourselves that Ward had indeed improved and was turning around. We think we have the proof now, since Ward, in a poor economy and beset by unexpected misfortunes, has not fallen completely on its face as many

Wait Till Next Year

MARCOR is far from the only major retailer with troubles these days. The retailers' performance is supposed to mirror the state of the general economy, but the severity of the earnings declines posted by most retailers in the first half of 1970 suggests not simply the modest recession most economists talked of, but an economic rout of major proportions. Earnings fell off 20%, 30% and more, particularly among discounters and department stores. Drug chains and general merchandisers did slightly better.

The discounters, according to a Burnham & Co. study, were caught with newly expanded stores and big inventories, and reported a 10% profit decline in the second quarter

despite 5% higher sales. One bright spot: S.S. Kresge, the Detroit-based discount giant, reported first-half earnings of \$25.5 million, up roughly 18%. Kresge's sales increased 18.8% to \$1.1 billion.

The department stores, hurt by slack demand for TV sets and other hard goods, posted a mere 2% sales increase and a big 35% earnings dip in the first half. Gimbel Bros.' profits in the first half sank by 85%, to just \$1 million, on sales of \$307 million.

The drug chains, which have broadened their product mix, fared a bit better. In the second quarter, their earnings dropped 8% on a 10% increase in sales. The big general merchandisers (headed by Sears)

continued to lead the pack. After a first-quarter decline the group's second quarter profits rose 1% on a 5% increase in sales.

The retailers' basic problem was inflation. Most of their sales increases reflected higher prices rather than higher volume, and the higher prices were far from enough to offset the skyrocketing increases in labor and other operating costs. And so, with the economy still marking time as autumn wears on, most retailers find themselves in the uneasy position of waiting for Christmas. And Christmas may not be enough. Like old Brooklyn Dodger fans, the retailers' cry is already beginning to sound like, "Wait till next year."

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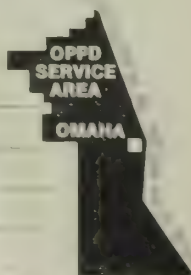
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people told us that it would do." In short, Schoenhofen is convinced the 1970 decline is only a temporary dip. He ticks off the list of Ward's troubles in 1970: 1) a poor year for the auto companies and their suppliers that sharply reduced sales in Detroit —by far Ward's largest metropolitan district—and throughout the Midwest, where it has its heaviest concentration of stores; 2) a Midwest trucking strike that also crippled first-half sales and a lithographers' strike in the second half that delayed Ward's catalogue past the back-to-school season; 3) difficult money market conditions that forced more than a dozen shopping center developers to renegotiate their leases and financing arrangements and caused Ward to lose a good many tens of millions in sales from delayed store openings. "Call it what you will—bad planning or bad luck—these things are all temporary, one-time problems," says Edward S. Donnell, who has been president of Montgomery Ward since 1966.

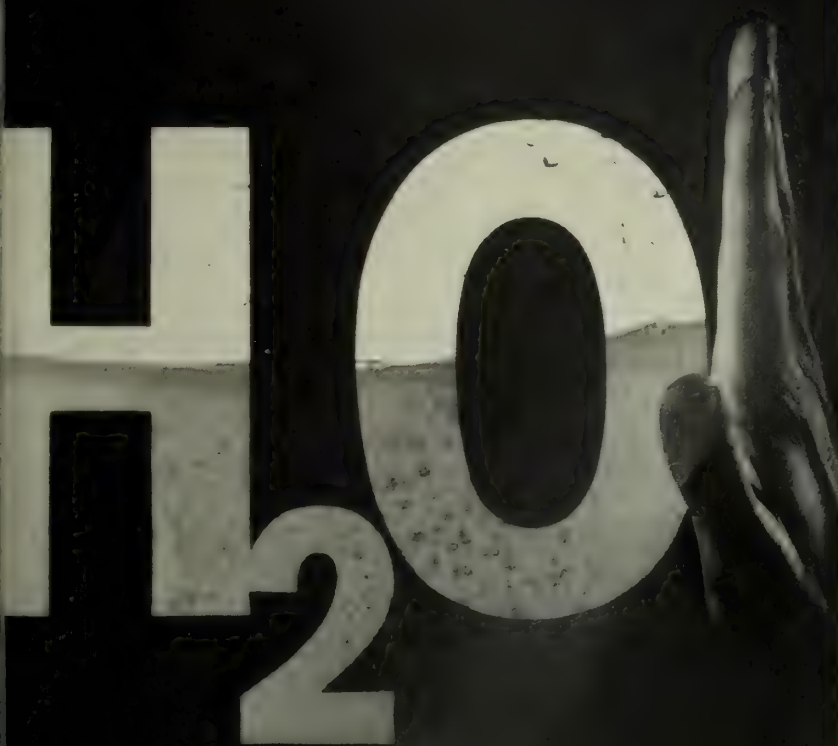
New Company

The man who convinced Schoenhofen that Ward's big problems were behind was Robert Brooker, a former Sears vice president and Whirlpool president who was brought over to Ward in 1961. Brooker, in effect, built a brand-new company within the old one. Today over 90% of Ward's profits, which totaled \$39.6 million last year on sales of \$2.2 billion, came from stores that did not exist at the time that Brooker took over.

Brooker had a two-pronged approach. In 1961 the majority of Ward's stores were located in smaller cities and towns while Sears' were concentrated in the rapidly growing larger metropolitan areas. Ward, for example, had only one store in or near Los Angeles. So Brooker set about adding scores of new stores in big metropolitan areas, some 210 through the end of this year, while closing 288 in other areas.

His second accomplishment was to replace Ward's department store-oriented management with experienced chain store operatives, many pirated from Sears (including Ed Donnell). Then he regrouped them into Sears-style metropolitan district organizations for more effective control and coordination of purchasing and merchandising decisions.

"The heavy burden of store openings and additional management layers has more than paid for itself," says Donnell. Ward's sales per square foot, a key retailing performance measure, have jumped from \$50 to over \$80. "We still trail Sears, which gets more than \$100 per square foot. But we're



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We make 44,000
things besides
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Among the many products we make besides tires are ingenious dams of rubberized fabric that inflate and deflate automatically. Rugged and highly adaptable, they are used widely. One example being in the Minneapolis sewer system to control flash flooding, and keep polluted water from entering the Mississippi River.

Another measure of our diversity: we are the carpet industry's largest supplier of rug backing. In fact, Firestone is basic in metals, plastics, textiles, chemicals and rubbers. (One-fourth of our profits now come from products other than tires and tubes.)

Is there something we can do for you? Very likely there is, whether it's supplying an existing product, or working out something to your specifications.

See Firestone. We aim to make products that are best today, still better tomorrow.

For more information, write: Firestone,
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Firestone

Rockwell Report

by Clark Daugherty, President

ROCKWELL MANUFACTURING COMPANY



Most R&D men worth their salt are continually after management for more, and better computer capacity — in the Research Center. But our R&D department willingly gave up their computer not too long ago — and are delighted with the results! As our vice president who runs R&D says, "We gave up a scooter for a one-third interest in a limousine."

They get their one-third "right out of the middle": 8 AM to 5 PM, five days a week, on a machine with memory disc and other capabilities far beyond what they could justify alone. (Our computer center is run by an engineer, which may be one reason for the preferential treatment.)

The payout, of course, is in the time saved by our engineers and scientists. For example, a prototype design for a nuclear valve was analyzed in 12 machine hours over a month's time: on the old R&D computer, it would have taken about 60 hours — and two months' work for our designer. Our R&D people have also computerized some sophisticated design work that would have been just too cumbersome on the old equipment.

By throwing in with the rest of the company, R&D got a better deal — and the company, a larger, more versatile computer with capacity for sophisticated analysis to help run the whole business more efficiently.



Changing climates. Many of our customers live in places where normal winter weather can play some nasty tricks on meters and valves. So we recently added another cold room to our R&D facilities that enables us to

test products from 150° below zero to 200° above. We can operate our valves on Alaska's frigid North Slope before they're shipped. We can "install" petroleum meters in Minneapolis, gas meters in Buffalo and parking meters in Seattle. Or we can turn on the heat and see how they'll react to a summer in Phoenix. As a result, we know our products are going to be comfortable in any climate — and so are our customers.

Quick-change artist. Manufacturers of printed circuit boards and other intricate products now have a way to make multiple spindle drilling of minute holes in a variety of sizes even faster and more accurate. Our Precise Division recently developed the Uni-Chuck tool holder to permit the frequent change of common shank drill bits in just a few seconds with a simple twist of the fingers. The old way can take minutes and requires a wrench. What's more, the Uni-Chuck helps produce a hole with twice the accuracy of other types of tool holders.

This is one of a series of informal reports on the Rockwell Manufacturing Company, Pittsburgh, Pa., makers of measurement and control devices, instruments, and related products for 28 basic markets.



Rockwell
MANUFACTURING COMPANY

better than Penney's, and in our newer stores we're doing more than \$90 per square foot," says Donnell. In 1967, when the rebuilding expenses were heaviest, Ward earned only \$17.4 million on sales of \$1.9 billion. This year, even with its run of bad luck, Ward could net close to \$35 million on \$2.2 billion in sales. If so, Marcor overall could earn more than \$60 million (vs. \$66.9 million in 1969) on sales of about \$2.8 billion.

Money Marriage

Given Ward's improvement, the merger made sense. But does it make sense to put a specialized packaging company together with a giant retailer? In theory, perhaps not. In practice, yes. Container has always been a well-run company, one of the most innovative in the packaging industry. During the Sixties, however, Container lost market share in the shipping container business, from over 7% to just around 6%, as bigger competitors like Weyerhaeuser and International Paper began to make their weight felt in the business. One reason was Container's refusal to expand in some lower-profit lines, but another was its relatively limited capital and its reluctance to leverage itself too heavily with debt.

That's where Montgomery Ward has helped. Ward has huge tax deferrals from its growing volume of installment sales—some \$124 million worth at the end of 1969. These arise (and bolster its cash flow) because its credit sales are reported immediately as income, but the taxes on that income are not paid until the installment payments roll in. Container, which last year netted \$27.7 million on \$510 million in sales, has been able to use some of Ward's added cash flow to double its plant expenditures to around \$85 million. Thus, without going heavily into debt, it can begin halting the erosion of its market share by larger, more heavily capitalized competitors.

Aside from sharing the tax break, Schoenhofen presently plans no other major steps to mesh Ward and Container and wastes no time singing the pleasures of synergy. He says each can do well on its own. Container will shortly bring on stream new capacity for which he says the markets are already in place. As for Ward, "They are still in the process of turning around, and that always presents tremendous potential for producing rather good profit gains."

But what do you call a company like Marcor? Is it a conglomerate? Of course not. An integrated operation? Again no. The fact is that Leo Schoenhofen doesn't much care what you call Marcor. He's only concerned that it produce results. ■

HIS MISSION: DESIGN THE FUTURE

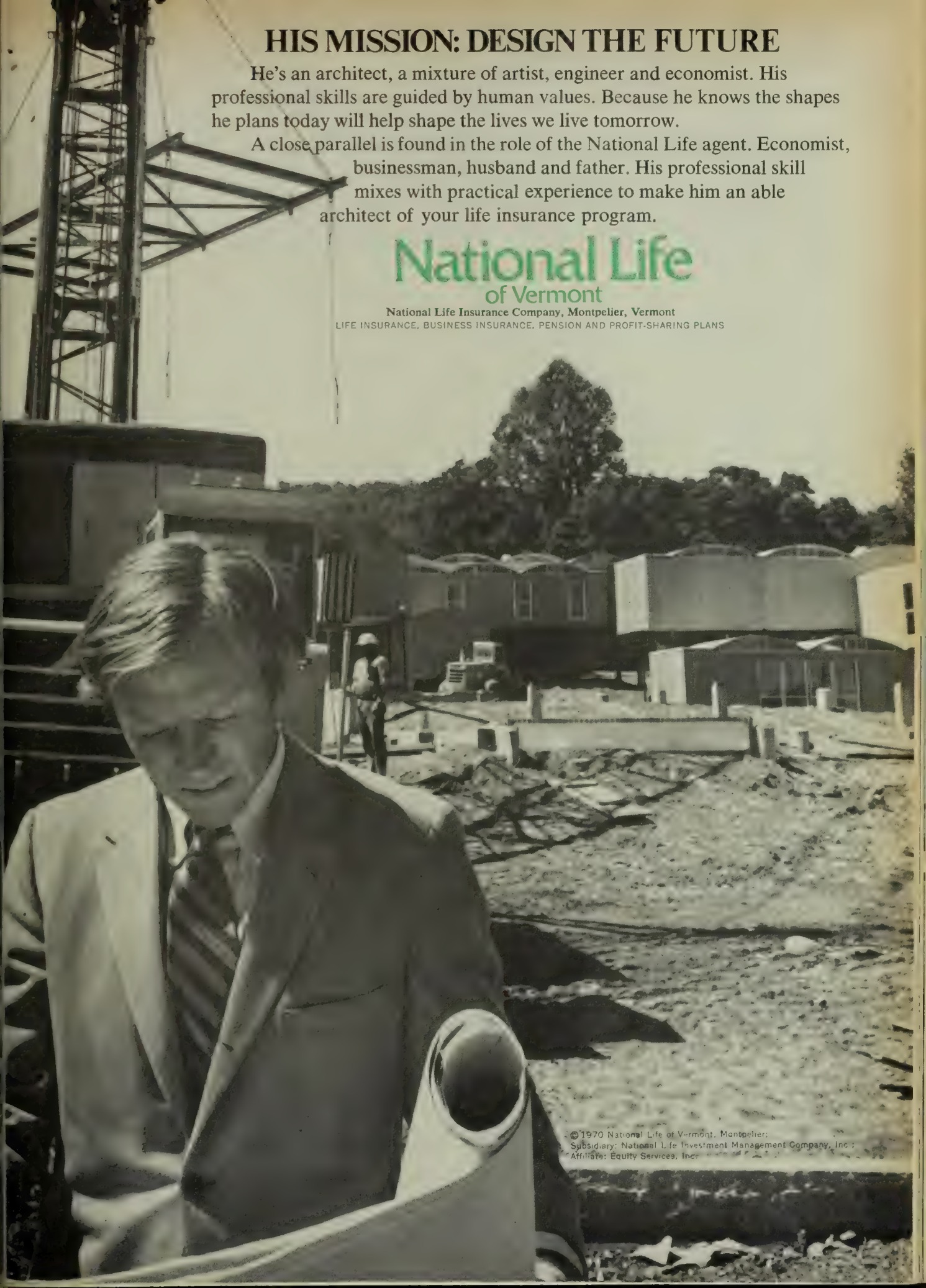
He's an architect, a mixture of artist, engineer and economist. His professional skills are guided by human values. Because he knows the shapes he plans today will help shape the lives we live tomorrow.

A close parallel is found in the role of the National Life agent. Economist, businessman, husband and father. His professional skill mixes with practical experience to make him an able architect of your life insurance program.

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The Money Men

The Fault, Dear Brutus . . .



Appleman of F.I. duPont, Glore Forgan

"Every investor or speculator makes his own success or failure in his own way, largely in the size and style of his own personality."

—THE WINNING HABIT

THE WRITER of the above is a pleasant, witty 52-year-old Manhattan-based partner in F.I. duPont, Glore Forgan & Co. named Mark Appleman. He has a stock market theory, and it involves psychology, not the mass psychology of John King (FORBES, Sept. 1), but individual psychology. Appleman has written a book about the psychology of investing called *The Winning Habit* (McCall's, \$6.95). Look will run a story on it next month and include a test Appleman devised of your and my fitness as investors.

Don't get your hopes up. *The Winning Habit* isn't a system for beating the market. Quite the contrary. If you're honest with yourself when you read it, you may well conclude that you're *never* going to beat the market.

Were you clobbered this year? Did you miss out on the best part of the 1967-68 bull market? Do you usually sell too soon and buy too late? Don't blame your broker, Appleman says, or permissive account-

ants or conglomerators or tight money or student rioters or Spiro. The fault, Dear Brutus, lies not in the stars but in ourselves.

"One of the most difficult phenomena we have to cope with today," writes Appleman, "is the subconscious desire of many people to lose in the stock market to pay back their gains from other sources. Paradoxically, they succeed in their subconscious desire to fail in their conscious aim." This in a chapter called "Market Masochists." Most of the book is a breezy guide to investor types he has observed.

Tell 20 investors about the same stock at the same time, Appleman says, and you will get 20 different results. Some will rush in. Others will turn it down for irrelevant reasons ("I never buy retail stocks" or "I once had a bad experience with one of their products").

Appleman likes to tell the story about two old-time Wall Streeters. One died worth \$20 million-\$30 million; the other merely left his family comfortably off. Friends, they both bought a utility holding company stock in the Thirties when it was going for a couple of dollars a share. The small winner sold his shares when they had doubled in

price; he figured the stock had done enough for him. The second held on until, around \$100, he saw signs it had run out of steam. Both recognized a bargain, but one of them had the "winning habit." The other one was a born small winner.

Talk to Mark Appleman for a bit—as we did—and you come to understand why he wrote the kind of book he did. "I've never been as interested in the numbers," he says, "as I have in the people." Until nine years ago, when he was 43, Appleman wasn't a stock market man at all but a words-and-people man. He did a youthful stint in Hollywood, where he wrote, among other things, the screenplay for Irene Dunne's *Invitation to Happiness* ("You can still catch it on the late late show"). After that he wrote half-hour TV shows—"until I found out the guy writing the 60-second commercials was making more money." Appleman ended up as a group head at J. Walter Thompson handling big financial accounts, and, no masochist, he gravitated to where the really big money was: Wall Street. Appleman in 1961 moved to duPont where he is a partner in charge of market development and public relations.

He took, however, his advertising man's habits with him. A good advertising man is more interested in what toothpaste means to the consumers than in its chemical formula. Appleman was more interested in investors than in investments.

Once on Wall Street, one of the first things Appleman asked himself was: How sensible are investors, *really*, about their money? He came to this conclusion: Most investors are swayed by a good deal more than a simple desire to maximize their *economic* gains. Appleman decided that the stock market was as much Freud and Jung as Adam Smith or J.M. Keynes.

How *good* is the book? Well, it's hardly original. Nearly two decades ago, investment adviser John Magee pointed out many of the same things in *The General Semantics of Wall Street*.

Also, Appleman tends to overstate by a wide margin the importance of having or not having the winning habit. For example, we asked him whether access to good research couldn't turn a loser into a winner. He replied: "A good research department will turn the odds a little bit in your favor. All it can do is reduce the risk slightly." Pressed, Appleman went even further: "Psychology accounts for about 75% of any market move."

Which, of course, relegates to relative unimportance the spheres of economics, politics, management and mass psychology.

Still, *The Winning Habit* is a comforting book for stockbrokers who won't mind hearing that most poor results are the *customers'* fault. Carried to its logical conclusion, however, the message of *The Winning Habit* isn't particularly encouraging for stockbrokers. If many readers are honest with themselves, they may recognize that they are, hopelessly, chronic losers or small winners. In which case they might be better off out of the stock market, or in a mutual fund.

We asked Appleman about this and he replied it won't often happen that way. "The most interesting thing I've found from people who I wrote about—under disguised names, of course—was that they didn't recognize themselves. When I told them they were in the book, they said, yeah, they recognized themselves, but almost always picked the wrong character." ■

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New Issue

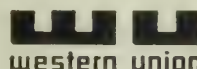
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September 24, 1970

Myers & Liggett?

We haven't really changed the name, but we have changed the company.
We are now 54 per cent non-tobacco.

"A touch of
Grand Marnier
gives it
a certain
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"But Alpo is
dog food."

"You tell him!"



"This Blue Lustre
carpet shampoo
is simply marvelous!"

"To each his own."



"Only an ape would make a
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less than five to one."



"Gentlemen, I'm pleased to say that
Liggett & Myers is number one in
sales of canned dog food (Alpo),
Scotch whisky (J&B),
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even popcorn. Any questions?"



"Show
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Lark pack."

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of total sales, excluding excise taxes (6 months, 1970).

Liggett & Myers

Incorporated



Out of the Clouds?

To an airline that made less than \$1 million over the entire last decade, any kind of a profit looks mighty good.

PRESIDENT FLOYD HALL and his cohorts at Eastern Air Lines still have their fingers crossed. Their company has lost money in seven of the past ten years, including 1968 and 1969. But if all goes well for Eastern during the last half of 1970, the nation's most conspicuous problem airline could wind up the year making at least a small profit.

During the first half it actually netted \$17 million on 16% high revenues of \$501 million, at a time when the four other major U.S. trunklines (United, American, TWA and Pan American) lost a total of \$90 million. Eastern typically does best during the early months, when winter vacationers travel its Florida and Caribbean routes, and then lags during the second half. But Samuel L. Higginbottom,

EAL's executive vice president and general manager, now is willing to go out on a limb and predict at least a marginal profit for the full year.

Does this mean Eastern has finally emerged from the fiscal clouds? Hardly. Eastern is currently doing well in large part because National Airlines, its competitor on its important Florida routes, suffered a long strike last winter. It is doing well, too, because it did so poorly during both 1968 and 1969, when the airline's losses totaled more than \$14 million.

Eastern has been in real trouble since 1968, the year the long-awaited Pacific route awards were made. The line had every reason to expect to get a Pacific route, and it had done its planning on that basis. "We had very fine recommendations from the examiner," says Charles J. Simons, Eastern's senior vice president and chief financial officer. "When we didn't get it, we were caught with more capacity than we required and had to take steps immediately to correct it—by phasing out both planes and people."

The phase-out, however, was not as abrupt as it might have been. Other lines have attacked similar overcapacity burdens in recent years by making wholesale cuts in personnel and planes. Eastern accomplished its cutbacks more gradually, through attrition. Its staff will have been reduced by 700 people by the end of this year, mostly because it has not replaced people as they retired or left the company. By the end of the year it will have retired 27 DC-8s, DC-9s and Boeing 720s, but added only 15 Boeing 727s. It has sold the four Boeing 747s it had on order, but has leased three back from Pan Am (until its Lockheed 1011s are ready for service late in 1971). So only in 1970, two years after it began cutting back, are the effects starting to be felt.

Fancy Trimmings

However, Eastern was, in Higginbottom's words, "a very sick airline" long before 1968. In the five years through 1964, the year Floyd Hall moved over from TWA to become Eastern's chairman and president, the company had lost more than \$50 million. Hall managed to improve both revenues and earnings for a few years, in part through a series of marketing ploys aimed at solving one of Eastern's biggest problems, its poor customer service image. One such move was its so-called Eastern I program, which

featured all-first-class flights with extra trimmings like Rosenthal china and additional stewardesses. Says Higginbottom: "The Rosenthal china was just as important in changing some long-held attitudes within the company itself as it was in attracting additional customers."

But the improvements Hall was able to make during 1965-67 were not enough to offset the capacity additions, made in anticipation of the Pacific routes. Hence the trimming back of the past two years. This year, thanks largely to National's strike, Eastern was able to boost its passenger volume during the first half by 14%, compared with only a 2% gain for all domestic trunklines. This gave Eastern a 55% passenger load factor during the first six months of this year, the highest of the Big Four domestic airlines, permitting the volume gains to filter down to profits.

Plenty of Troubles

Hall, Higginbottom and Co. realize there is still plenty of bumpy riding ahead. Improvements notwithstanding, the reputation for less than excellent service has died slowly. It has not been helped by the fact that Eastern, with its heavy concentration of East Coast routes, must fly into some of the most congested airports in the country. Then too, while Eastern has tried such marketing ploys as off-peak fares, its competitors have countered effectively with moves of their own. Eastern has been trying to build traffic at a time when other profit-short airlines have desperately been trying to do the same.

Most troublesome for Eastern, however, is its route structure—a problem that is not easily or quickly solved. Eastern simply does not have enough of the more profitable long-haul routes, and it has almost no overseas routes. A year and a half ago it won permission to fly from Atlanta to Los Angeles and Dallas/Fort Worth. This summer it gained flights from St. Louis/Omaha to the Pacific Northwest. Even so, its average flight is only 512 miles long, excluding its short Washington-New York-Boston shuttle service, while United's flights average 640 miles, American's 708 miles, TWA's 771 miles. Nothing short of a merger with another line that has long routes will improve this situation very quickly. And Eastern, with a 2.8-to-1 debt-equity ratio, one of the highest in this debt-ridden industry, is scarcely the most attractive merger partner around.

Eastern, in short, still has plenty of problems. But that only serves to make even marginal profits for 1970 look mighty good. ■



TriStar. Denied its hoped-for Pacific routes, Eastern has pinned its hopes on Lockheed's L-1011 airbus rather than the 747 to serve its high-volume, short-haul route system.

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Four technologies converging to build leadership positions
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Another case in point: High-Density Powder Metal Shapes. Gould's unique capability of engineering and fabricating powder metal products offers competitive advantages over costlier machined parts. A new "hot-densifying" process provides products with up to 98% of the density of wrought metal. With Gould's powder metal process, lower costs are achieved because there is no scrap, and many secondary machining operations are eliminated. This metallurgical activity provides high-precision mechanical components for use by automotive, truck, heavy machinery, computer and appliance manufacturers. Gould Inc., 8550 West Bryn Mawr, Chicago, Illinois 60631.

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We don't just expand existing markets.
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Developing markets to their full potential is one way to build businesses. Creating new markets is another. At Tenneco we do both. That's one good reason why our sales are at an all-time high—over \$2.4 billion last year—up 318% since 1965. And we're still growing. Because we're still building—in more ways than one.

Tenneco Inc., Houston, Texas 77001.



Tenneco



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KERN COUNTY LAND CO. / J. I. CASE CO. / FARM BUREAU MANUFACTURING CO. / NEWPORT NEWS SHIPBUILDING



Example: the designing of giant ice-breaking tankers to create new shipping routes through Arctic ice 20 feet thick.

Example: the creating of new shapes, sizes, and kinds of packaging. Purpose: to serve producers and consumers better.

Example: new "wet look" upholstery material. This high-gloss, high-fashion material is the latest addition to Tenneco's Tenpelle™ line.

Example: concrete pumping systems that can pump concrete 20 stories or higher. Result: savings in construction time and cost.



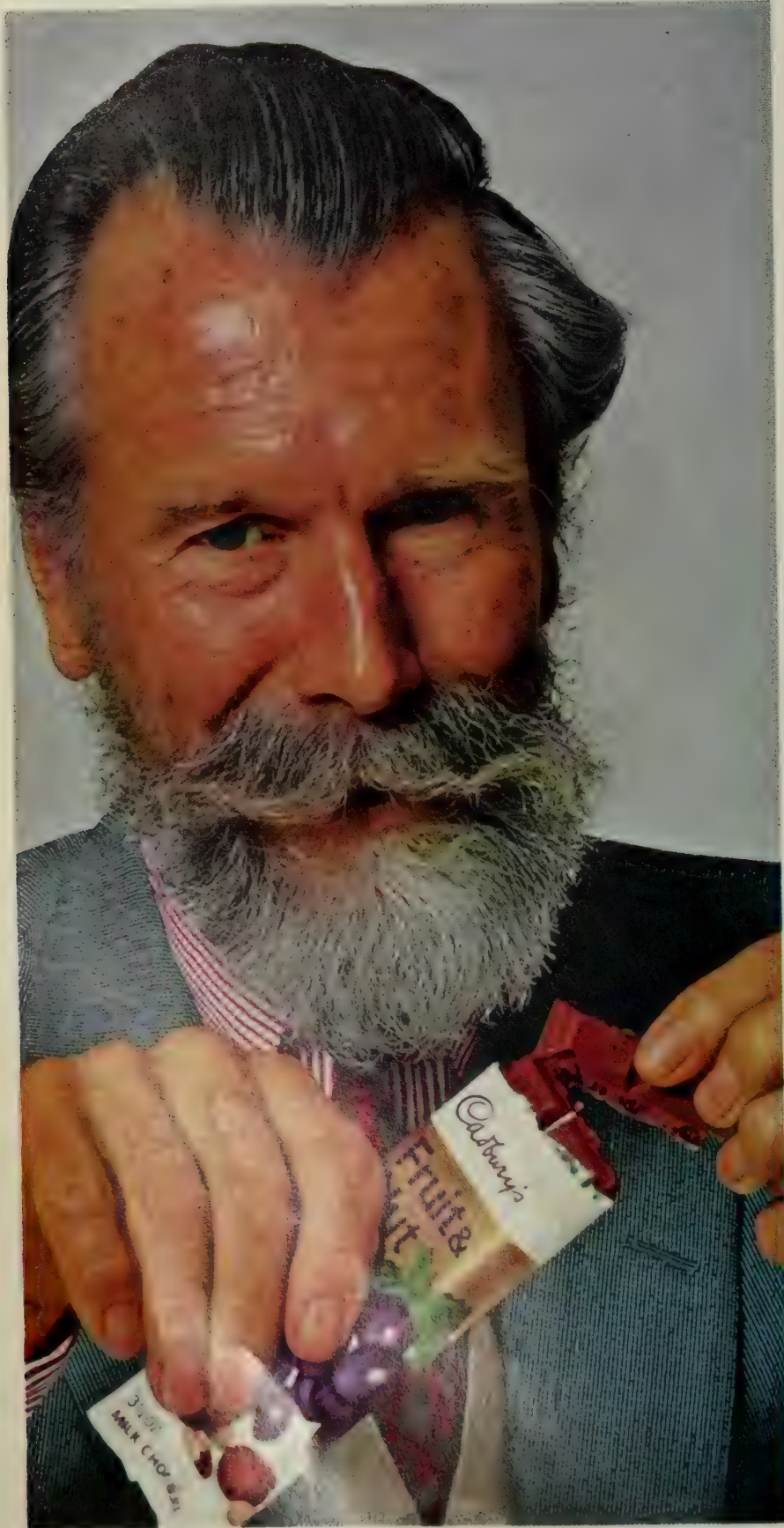
Example: the planning and building of new communities for a growing population. Purpose: to provide for living, working, and playing.

Example: the engineering of a new high-speed racing jack. It's typical of lifting devices we design for faster, lower-cost auto service.

Example: the "total energy" concept of natural gas as a single source of clean energy for heating, cooling, electricity, too.

Cadbury's New Schweppervescence

With the Cadbury Schweppes merger, another old British family firm disappeared and a big new international food company was born.



ANYONE who has ever so much as glanced at a Schweppes ad knows that Commander Edward Whitehead is the very model of a gin-and-tonic man. Most Americans take it for granted that he invented the drink.

Can you imagine Commander Whitehead peddling Turkish Delight? Or chocolate fudge? Or something called Crunchie?

He will. And very soon. He may not like the stuff himself, but he'll sell it. For proof of that, take a look at the photo to the left.

Schweppes, which also introduced Americans to bitter lemon and bitter orange, has merged with Cadbury, a company that makes chocolates and other confectioneries and food products of various kinds such as dehydrated potatoes and freeze-dried milk. And Commander Whitehead, who is chairman of Schweppes U.S.A., is also on the board of Cadbury Schweppes, Ltd.

Until the merger, Schweppes and Cadbury both were relatively small companies, as soft-drink and food companies go. By the merger, they have entered the league of the big fellows. With combined sales last year of \$625 million, Cadbury Schweppes still is only a baby compared with such competitors as Unilever, Swift, Procter & Gamble and General Foods, but it's big enough to fight them. And that, says Lord Watkinson, former chairman of Schweppes and now chairman of Cadbury Schweppes, was the basic reason for the merger: to create a company with sufficient financial resources to fight anybody in the food and soft-drink business.

Although Cadbury Schweppes is less than a fifth the size of Unilever in the food business and less than a third the size even of Nestlé, Lord Watkinson has no fear of them. He says, with obvious confidence: "We can't expect to increase earnings this year because of the problems and the expenses of the merger. Starting next year, we'll have an increase of 10% in earnings every year. I'm sure of that." Following the merger last year, the stock was selling between \$2.15 and \$2.25. Recently, it sold at about \$1.60, but even so had a price/earnings ratio of 16, among the highest of the food companies on the London Stock Exchange. Says Lord Watkinson: "The decline of our stock has been exactly in line with the general fall in the market, but we've done slightly better than our competitors. We're not going to blossom overnight into a glamorous stock, but wait 'til next year."

In the same tone of confidence, Commander Whitehead says: "We're not afraid of competition. When I arrived in the U.S. 18 years ago, I made

an intensive study of U.S. marketing practices and I've been studying them ever since. The Americans are right. Competition is good for anyone who knows how to compete, because competition enlarges the market."

Schweppes and Cadbury courted each other for a long time. Yet, the marriage did seem an unlikely one. The food business and the soft-drink business are actually two completely different businesses. Because of the pattern established by Coca-Cola, soft drinks are marketed by independent bottlers. Like Coca-Cola, Schweppes provides the essence, the knowhow and the quality control; the bottlers handle the local marketing. This makes it utterly impossible for Cadbury and Schweppes to create a unified distribution system.

Other incongruities: Schweppes had long been a publicly held corporation. Cadbury, in contrast, had been controlled by the Cadbury family and trusts. Schweppes was a highly profitable corporation, though small: In 1968, on sales of \$227 million it earned \$25.7 million before taxes. Cadbury was only moderately profitable, though much larger. On sales of \$356.9 million it earned \$22.1 million.

Then why the merger? To understand the answer, one has to realize a simple fact about the United Kingdom: It's a small country. Any company with the ambition to grow must grow overseas.

"We have only a third of the home market of General Foods," says Lord Watkinson (who, incidentally, is a tremendous admirer of GF's management). Of necessity, therefore, both Schweppes and Cadbury did have one thing in common: Though based in the U.K., they were international-minded. They both thought of the entire world as a market.

They had another thing in common: the ambition to grow. When Commander Whitehead says that he doesn't like chocolate, but he'll sell it the way he sold tonic, he's expressing the attitude of the whole Cadbury Schweppes organization. "I don't care if he eats it," says Lord Watkinson, "so long as he sells it."

On the desk of every Cadbury Schweppes executive is a sign in red letters that Lord Watkinson had distributed: "The name of the game is profit." Not an original thought, but one often ignored in British business.

Until Adrian Cadbury, a tall, thin, intensely polite man of 41, took over the family business (and it was very much a family business with ten Cadburys and Cadbury relatives in executive positions), the company was sluggish, not only in terms of profit but also in terms of sales. Its share of the

U.K. market was shrinking. Adrian Cadbury decided to change that. He's a pusher. The English may appear diffident, even indolent at times, but they can be just as go-go as the smartest whippersnapper on Madison Avenue. And Cadbury is like that.

Lord Watkinson, at 60, also was looking for new worlds to conquer. His problem was money. "On a capital base of \$72 million, we were in danger of overextending ourselves. We simply needed more capital in order to expand," he says.

As Lord Watkinson explains it, the merger does begin to make sense. Schweppes had the profitability. Cadbury had the capital. Cadbury Schweppes, Lord Watkinson says, has a capital base of "between \$550 million and \$575 million." Even if they cannot merge their distribution systems, they can use their capital and cash flow for mutual benefit.

"We don't expect any great economies from the merger," Lord Watkinson says. "Long before the merger, we both had McKinsey & Co. in, for whatever they're worth. This was not a merger designed to effect savings, but to give us strength to fight any food and drink company in the world."

Even Coca-Cola?

"Yes."

In the food and drink business, new products are vital. Cadbury was slow in producing new products. Schweppes, in contrast, worked really hard to develop them. After tonic came bitter lemon and bitter orange. ("One thing I'm proud of," says Com-

mander Whitehead, "is that I invented the slogan for the bitter lemon: 'The only soft drink that children don't like.'") What held Schweppes back was lack of money. Cadbury Schweppes now has money. In the merged company, Lord Watkinson is chairman. Adrian Cadbury is managing director. "My control is financial," Lord Watkinson has said. "Adrian is concerned with tactics." Whitehead will soon head Cadbury's operations in the U.S.

Both companies were highly decentralized before the merger, with each division manager pretty much in charge of his operation. This policy is being continued since Cadbury Schweppes sells all over the world, and the market in each country is different. "We cannot work on the assumption that we know it all here," says Basil Collins, chairman of the overseas group. Of course, Cadbury Schweppes does have absolute control over the products they sell. "We charge more for our tonic," says Commander Whitehead. "We're able to only because we produce a drink that is demonstrably superior."

"We're only at the end of the beginning," Lord Watkinson says, indicating that the merged companies have very big plans. And anyone who thinks that British marketing is no match for the American pros should remember what Commander Whitehead did: Made a solid beachhead in the very tough U.S. soft-drink market for a decidedly British product. Never underestimate a determined Britisher. ■



Kids Don't Like It? That slogan is all wet if you ask parents badgered into buying high-priced Bitter Lemon, or consult Schweppes' P&L account.



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We've been averaging more than one acqui-

sition and one new plant a year since 1954. Each of our past five years has topped the previous one in record sales. And right now we're moving into our second century with sales of over a quarter of a billion. Already this year we've bucked the general business trend with still another record high in sales and earnings for the six-month period.

So when it's growth you're after, take a long, hard look at Simmons.

All of our babies are doing nicely.

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second century

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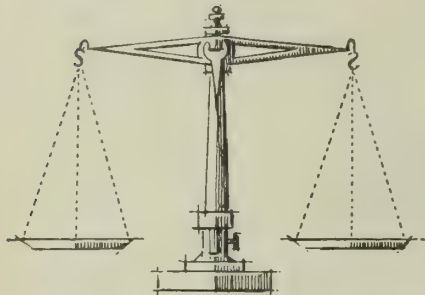
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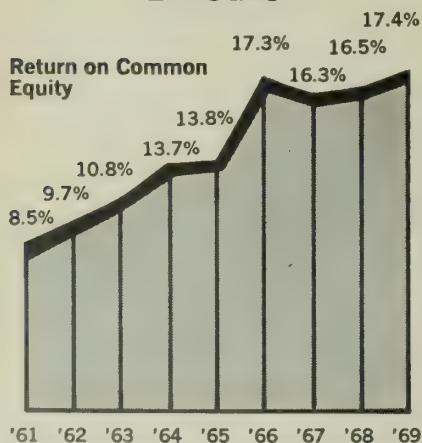
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with companies, as
with other things,
the important thing
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The Billion-Dollar Insurance Caper

Last year nearly \$1 billion, on top of some \$300 million the year before, left the fire-and-casualty companies in "upstream dividends." It's hard to find anybody who benefited.

TWO YEARS OR SO ago, a couple of reports from very different quarters pointed out an unusual situation in the fire-and-casualty insurance industry. As a result, that industry may never again be the same.

The first study, issued late in 1967 by the Wall Street firm of Carter, Berlind & Weill (now CBWL-Hayden, Stone), remarked on how much more capital the fire-and-casualty industry had than it needed to conduct its low-profit business. (It recommended that the insurance companies be taken over and their capital used elsewhere.) The second, finished early in 1968 by the New York State Insurance Department, coined the term "surplus surplus," meaning any surplus beyond that legally required to back up a company's policies. This excess, the study went on, "could and should be invested more freely, precisely because it is not required for insurance purposes." The study then suggested that holding companies be set up to carry out the diversification.

The two studies obviously made convincing reading. In 1968 no less than \$300 million was drained from the fire-and-casualty companies (as well as other insurance operations) in so-called "upstream dividends"—funds shifted, under one accounting device or another, by an insurance company to its majority stockholder, whether a holding company set up to facilitate diversification or a conglomerate or other outsiders. Last year the total "upstreamed" reached nearly \$1 billion (see table), and may have exceeded it if all the smaller cases were known.

So far this year, the stream has dwindled to a trickle. That was in part the result of the stock-market decline and of continued casualty underwriting losses. But only in part: Many state insurance commissioners now demand that they be notified prior to any significant upstreaming, and National General's drawing off of a \$171-million dividend from Great American Insurance last year sparked a congressional investigation into the use of insurance funds by conglomerates.

More Ways Than One

But the end, at least temporarily, of upstreaming does not mean that the holding companies, conglomerates and other outfits that control casualty companies have abandoned the notion of tapping all that insurance cash. What they have done is to devise slow-

er and more sophisticated techniques.

Take International Telephone & Telegraph, which after a year and a half of trying has finally been able to merge with big (\$1.8-billion assets) Hartford Insurance (although an anti-trust challenge to the merger is now being fought out in the Federal courts). To complete the merger even this tentatively, ITT had to satisfy Connecticut Insurance Commissioner William R. Cotter that Hartford's "surplus surplus" would not be used outside the insurance business for ten years, and this is only one of numerous conditions ITT President Harold Geneen agreed to accept. Why should he go to such lengths?

In part, Geneen is betting that Hartford will have a brighter future than its poor past. But even if he is wrong, consider these potential advantages. First, because of its past underwriting losses, Hartford represents a \$22-million tax shelter for ITT's own earnings. Second, Hartford's portfolio provides a potential reserve of unrealized capital gains that can be regularly harvested and included in parent company earnings. Third, Hartford can make substantial cash payments direct to ITT, on the theory—widely held and acted on by those who use subsidiary and parent tax accounting—that the insurance subsidiary should rightfully pay to the parent what it *would have owed* in taxes as an independent company. And what goes for ITT also goes for such conglomerators as Leasco (Reliance Insurance), Tele-

Upstream Dividend Payouts

As the sampling below suggests, 1969 was a big year for "upstream dividends"—dividends paid from excess reserves by insurance operating companies to their holding-company parents. Some parent companies below, including CNA, Lincoln National and INA, also received substantial upstream dividends in 1968.

Parent Co.	Payout (millions)
Continental Corp. (N.Y.)	\$465
INA Corp.	175
Nat'l General (Great American)	171
CNA Corp.	58
Leasco Data Proc. (Rel. Ins.)	39
Lincoln National Corp.	30

dyne (Teledyne United), University Computing (Gulf Insurance) and National General (Great American).

The first-named advantage, the tax shelter, was admittedly a major factor in the move by the insurance companies themselves to set up holding companies that would hold the insurance companies as subsidiaries but also engage in outside ventures. Such a holding company, says Financial Vice President S. Davidson Herron Jr. of INA Corp., could "send the excess funds in the insurance business out and buy companies with earnings which would absorb the large tax-loss credits available from insurance operations." INA Corp.'s own insurance subsidiary has an estimated \$55 million in tax-loss credits available over the next five years. Tax credits are also available to companies such as CNA, American General, Aetna Casualty and Travelers which had a whopping \$75 million. And the trend of underwriting losses so far in this year of Hurricane Celia and west coast brush fires suggests there will be lots more tax credits.

'Twixt Cup and Lip

The logic of this theory about how to use "surplus surplus" is impeccable, but it *does* depend upon several assumptions. If the excess funds are used to acquire companies, they must be sound properties with good earnings growth acquired at reasonable prices. If they are used to make outside investments, the investments shouldn't go to hell in a handbasket. And finally, one should be at least fairly certain that the funds in question will not suddenly be needed for the insurance business. Unfortunately, says 70-year-old Roger Kenney, the dean of U.S. insurance writers and analysts, "Many conglomerates and a number of insurance holding companies have fared poorly on all counts. They have not appreciated all the pitfalls that lay before them."

The net result has been that some of the industry's "surplus surplus" had vanished by mid-1970. INA Corp., whose investments had yielded capital losses instead of capital gains, saw its excess shrink by some \$350 million in a little over 18 months (though INA's Herron says that the amount has increased "significantly" in the market's rebound). City Investing had bad luck at Home Insurance, whose portfolio shrank by over \$160 million over the same period.

Some of the most serious losses were suffered by insurance companies whose conglomerate parents were already in trouble on other operations. Thus Leasco saw Reliance's once large unrealized capital gains almost wiped out by mid-1970, while National Gen-

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New Issues

\$150,000,000

International Telephone and Telegraph Corporation

\$100,000,000

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8.30% Notes Due October 1, 1975

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Losses of homes in Southern California's worst brush fire are already put at \$30 million, helping to make 1970 another expensive year for casualty companies. Another costly visitor: Hurricane Celia (\$330 million).

eral suffered realized investment losses of nearly \$95 million in 1969 alone, as President Eugene Klein drained off funds from Great American Insurance to put into such rank speculations as Performance Systems (formerly Minnie Pearl) and General Host. How large the *unrealized* losses are is anyone's guess. To add to its woes, only last month New York's Department of Insurance charged Great American Corp. with violation of the state's insurance law.

Many of the holding companies set up by the insurance companies themselves, though basically better companies, have caused big problems. Continental Corp. has sunk nearly \$90 million into Diners' Club, which has suffered major losses. Several acquisitions and investments—notably the \$25 million in stock that CNA paid for Tsai Management, and other investments—have turned out poorly enough to lead CNA to scuttle its diversification program for at least a year “until it can digest all the acquisitions,” though CNA professes optimism over the eventual result. INA, too, so far has fared poorly in acquisitions and investments like Blyth & Co. and American Institutional Development Corp.

Would the insurance companies have been better off if they had forgotten about diversification and new outside investments and merely accepted the unrealized portfolio losses when the market collapsed? Among those who think so is Donald Kramer, insurance expert and partner at New York's Oppenheimer & Co.: “Most of their heavy investments and acqui-

sitions have been poor or worse,” he says. “They just didn't understand adequately many of the businesses they became involved in”—though he does think it possible that some of the diversification moves may turn out better in the future.

In the meantime, however, the industry's capacity to write new business is shrunken at a time when it is sorely needed. Most state insurance commissioners believe that a company should have \$1 in uncommitted surplus for every \$3 to \$3.50 in new casualty premium dollars it writes, in order to guard against unusual losses. But in the past year insurance companies as big as Travelers and Aetna and Government Employees have been writing consistently more than \$3.50 in new casualty premiums for every dollar of such surplus. This is not because of a spurt in new business written, but a shrinkage in the surplus—which was down 24% for the top 120 stock insurance companies as a whole in the first half of 1970 alone, according to *Best's Insurance Reports*. The reasons were declining securities markets plus continued underwriting losses.

In fact, some if the parent companies have been returning funds to their insurance operations. And Continental Corp., which pulled \$465 million in dividends upstream late last year, is keeping much of that amount liquid, apparently so that it can be “downstreamed” if necessary.

But some parent companies, and especially some of the conglomerates, may have very little left to return in case of need, no matter how urgent. ■

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First Things First

Find the right raw materials, say Pennzoil's Liedtke brothers, and the profits will take care of themselves. The Liedtkes are convinced they have the right materials.

UNLIKE many other once-small companies that merged their way fast to power and prominence in the late Sixties, Houston's Pennzoil United Inc. shows every sign of becoming a long-range success. The present company was created by two brothers from Tulsa, Okla., Chairman J. Hugh Liedtke, now 48, and President William C. Liedtke, 46.

Starting in 1946 with a small oil and gas exploration venture, the brothers gradually spread out through acquisition and merger to absorb a handful of smallish gas and oil companies. In 1965 they won control of United Gas, the huge gas utility, and in 1968 took over the company. Today Pennzoil United has annual sales of around \$700 million and total assets of \$1.4 billion. The backbone of its operations is still its big natural gas transmission and distribution business. But its real promise lies elsewhere. It has a middling-sized oil and gas operation, and through its 99.7% interest in Duval Corp., it is in silver, sulphur, potash, copper and molybdenum as well. But it is not simply a conglomerate. "When you try to build a corporation," Hugh Liedtke says, "you've got to start with certain basic beliefs. Ours happens to be that we can build a major and widely diversified natural resources company."

The Liedtkes do have this in common with the conglomerators: They have—until recently—relied mainly on acquisition rather than internal growth. Many of Pennzoil United's most promising properties were part of the United Gas acquisition, but the Liedtkes say that the old management—which they began easing out in 1965—had neglected the nonutility part of the business. "From our checking," Bill Liedtke says, "we felt a lot could be done to realize a great deal more from these properties, and this has in fact been the case."

Take United's oil operations. "They treated it as a stepchild," Bill Liedtke says, "and we felt, yes, we had expertise in oil that they did not have." The brothers tightened and reorganized the operation and expanded its exploration efforts to include Canada, Alaska, the North Sea and Indonesia.

But Pennzoil United's more immediate potential, the brothers felt, lay in Duval Corp., which United Gas had controlled ever since 1930. In the late Sixties, at a cost of nearly \$350 million, Duval brought in a series of major new mines: a copper-gold-silver property near Battle Mountain, Nev. in 1967; a big new potash mine in Saskatchewan, Canada in 1968; an even bigger sulphur deposit at Culberson, Tex. in late 1969; and a massive low-

grade copper-molybdenum deposit in the Sierrita Mountains of Arizona early this year.

Neither Culberson nor Sierrita have yet brought in any appreciable profits. The Sierrita mine's initial output is going into repaying an \$83-million loan from the General Services Administration that helped finance the mine. But with the copper price at 60 cents a pound vs. the 42-cent price originally anticipated, Sierrita should begin paying out two years ahead of schedule—in mid-1973 instead of late 1975. With copper at 42 cents, Sierrita expected to earn \$19 million pre-tax. At 60 cents, the take could easily jump to \$40 million and beyond.

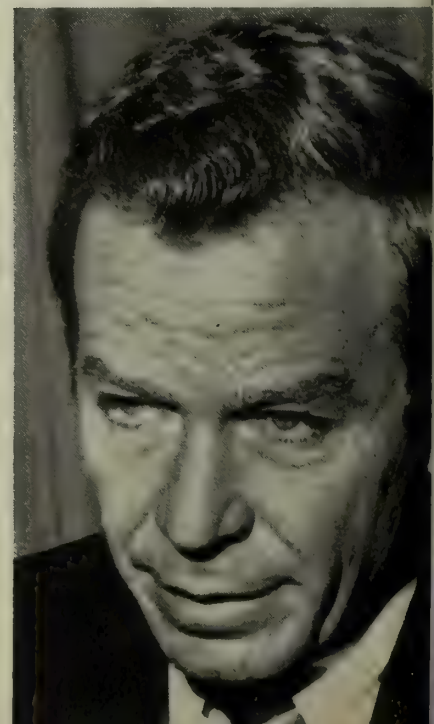
The Culberson sulphur project, which went into production last fall, is now running at a 1-million-ton annual rate, and this will rise to 2.5 or 3 million tons over the next two or three years. Sulphur prices are well below the \$40 a ton or so at which Pennzoil's studies predicted the mine would yield \$67 million pre-tax annually, but the mine is so low cost that it can compete even with the by-product sulphur the Canadians are removing from natural gas these days.

All this would satisfy most managements, but not the Liedtkes. In partnership with Southern Natural Gas, they are already building a 197-mile,

Brothers Act. Hugh Liedtke (below) and brother Bill (far right) share Pennzoil's executive responsibilities, though Hugh is chief executive.



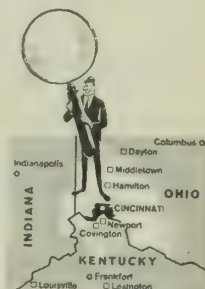
Brimstone. With prices down, Pennzoil's closing its old sulphur mines in New Mexico. But the new Culberson mine (left) looks like a moneymaker.



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\$86-million pipeline—Sea Robin by name—out into the Gulf off the Louisiana coast into an area that probably ranks as the most promising unexplored natural gas prospect in the U.S. More imaginatively, they have set up a new subsidiary—Pennzoil Offshore Gas Operators—to undertake a \$150-million oil-and-gas exploration program in the area. POGO will be part publicly owned, with 80% control retained at least initially by Pennzoil. “An investor who just wants to play natural gas,” Hugh Liedtke says, “why, he can come in that way.”

The Liedtkes have not come so far so fast without cost. The company has a huge burden of debt, \$591 million, 41% of total assets. It has a big issue of convertible preferred, which, if converted, would increase the common capitalization from 18 million shares to well over 30 million. What with the cost of expansion, the high cost of money and the pricing problems in sulphur and potash, there has been little real growth in pretax profits in the company's three years of existence in its present form; what gains the Liedtkes have been able to show came from virtually eliminating federal income taxes partly through accounting changes and partly from a sharp rise in the investment tax credit. This year, with no further tax gains possible, soaring interest and operating costs cut its net; and earnings dropped 6.8% in the first half, though Hugh Liedtke expects to come out ahead for the year.

Natural Profits

Nevertheless, the company now has tremendous financial resources, probably enough to handle all the debt and the expansion plans, too. Last year's cash flow came to more than \$125 million, and the company ended 1969 with plenty of cash—\$70 million.

At any rate, the Liedtkes, being typical oilmen, tend to be as much interested in cash flow as in earnings per share, and in this they are in good shape. “One thing this company isn't going to do,” says Hugh Liedtke, “is fall into the old trap of promising an orderly advance in earnings in every quarter. You can't do this in mining.”

Press him about earnings, and Hugh Liedtke says flatly he expects to double them over the next five years—even though the quarter-to-quarter and year-to-year gains may be erratic. “Look,” he says, “in our country we're short of virtually every major natural resource necessary to staying where we are, let alone to making economic progress. The country's short, the world's short, too. If Pennzoil has the raw materials—and we do—ultimately we'll profit from them.” ■



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Maurice Utrillo

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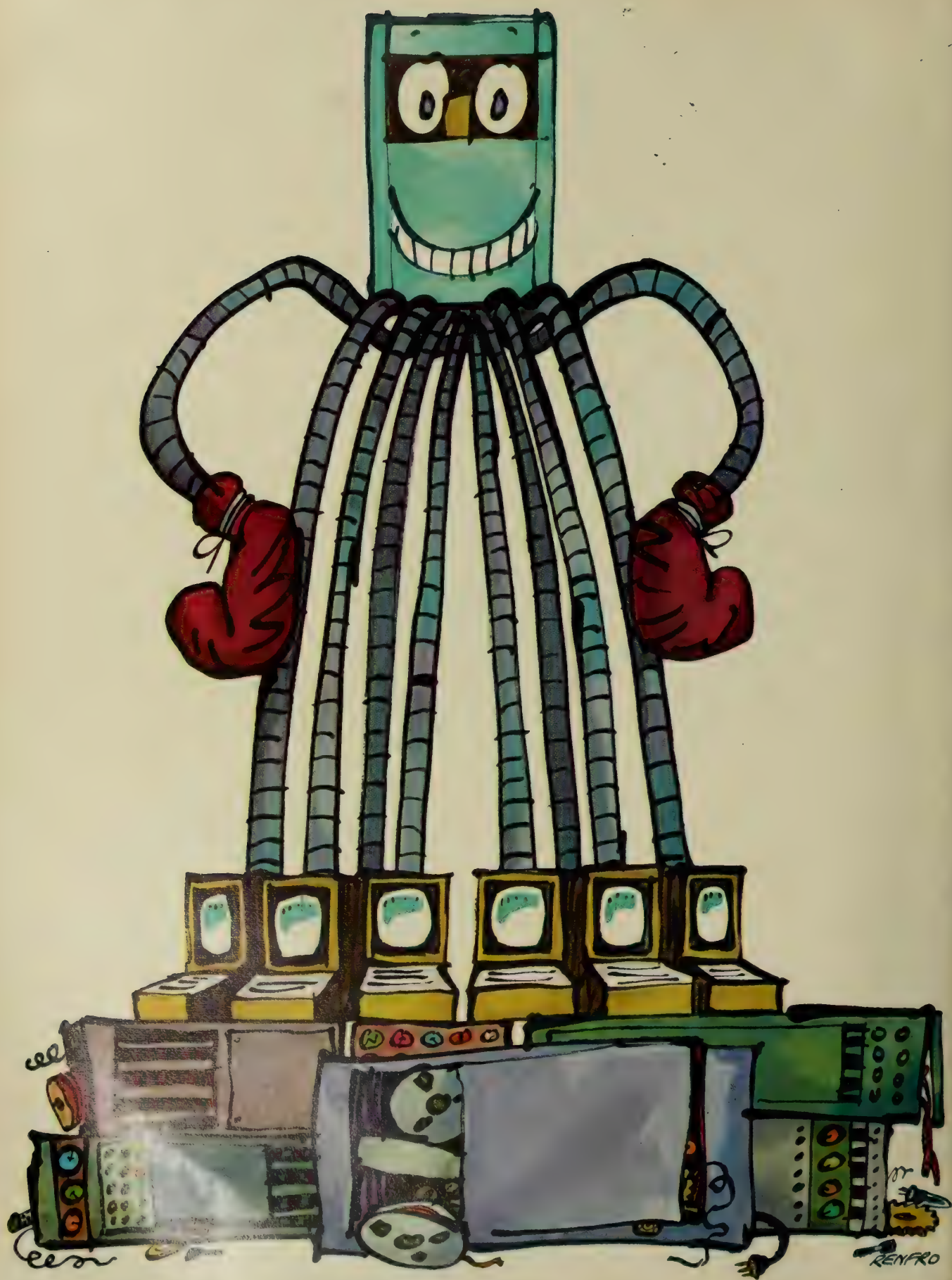
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Making Hospitals Pay

If you think the Four Seasons debacle has killed business enthusiasm for health care, look at what is happening in hospitals.

EVERYONE KNOWS that all hospitals are notoriously unprofitable. So why are chain-operated-for-profit hospitals now big business and probably the fastest-growing industry in the U.S.?

Just look at the performance of the five largest hospital chains. They are American Medical Enterprises, American Mediacorp, Beverly Enterprises, Extendicare and Hospital Corp. of America. From 1968 to 1969 their combined revenues rose from \$86 million to \$250 million—and to \$190 million in the first half of 1970. Even while acquiring, earnings more than kept pace, rising from \$4.4 million in 1968 to \$14 million in 1969 and to \$11 million in 1970's first half. The end is not in sight. The chains are expanding in the fastest-growing sections (the suburbs) of the fastest-growing areas (44% of their hospitals are in the Pacific states).

How can this be, considering the sea of red ink in which many of the 5,853 and \$17-billion-a-year hospitals founder? Critics say for-profits skim the cream by selecting only the most profitable patients, leaving the rest to the nonprofits—and to the taxpayers. Robert S. Goldsamt, chairman of the largest chain, American Mediacorp, disagrees. He told FORBES: "A nonprofit cannot afford to bring in the kind of management that we can. The large chain-operateds will be the most beneficial things to come onto the hospital scene in the last hundred years."

Is it central management or patient selection that makes the chains profitable and competitive? The truth lies between. It is a little of both.

It is significant that many nonprofit hospitals are chain-managed. These nonprofit chains claim they have achieved important economies over what the typical independent nonprofit hospital gets. FORBES talked to the directors of three of the largest non-

profit chains. Robert E. Toomey, executive director of South Carolina's 900-bed Greenville Hospital System, estimates he has 205 employees per 100 patients, compared with a national average of over 270 for the same-sized hospitals. H.M. Malm, executive director of the Midwest's 3,300-bed Lutheran Hospitals & Homes Society of America, estimates his savings in supplies at 25% to 30%. The profit-making chains claim to get these and other savings. Some are unquestionably achieved at the cost of the service they can offer the public.

Cream of the Crop

Stephen M. Morris, president of Arizona's 1,300-bed Samaritan Health Service, another nonprofit chain, implies a criticism of the profit-makers. "In the community health field, whatever monies are made should go back into more facilities and better services rather than be taken out of the field." He points with pride to his airplane emergency service, sophisticated and expensive equipment (such as that used in kidney dialysis) and education costing him \$2 million a year.

A for-profit hospital, of course, cannot afford such expensive and seldom-used equipment. It cannot afford to take terminal cases or long-term patients. Unlike nursing homes, profit-making hospitals depend on room and board for no more than half their revenues, the balance coming from services. Normally, the short-stay patients make the most intensive use of services, reinforcing the charge that profit-making hospitals skim off these, leaving the community hospitals' finances even worse.

At last count, there were 42 for-profit chains in the country, and according to Goldsamt, "There are about ten companies in the industry that we think have really great futures." Ex-

tendicare recently acquired a formerly nonprofit hospital, St. Joseph Infirmary, the Catholic-run Louisville institution. With many of the religious orders desperately needing money, there could be more such acquisitions.

Three chains have already reached respectable size: American Mediacorp, Hospital Corp. of America and American Medical Enterprises have 37% of all existing and planned chain beds.

The largest is Philadelphia's American Mediacorp, born in 1968, when it realized \$17 million in revenues and earnings of \$849,000. In 1969 it acquired its way to \$77.6 million in revenues and \$4.3 million in earnings. In 1970's first half, revenues were \$69.4 million and earnings \$4.5 million. Most of Mediacorp's 30 hospitals are in California, with others in the Far West and South and three in the Northeast. Mediacorp formed the Wharton Development Co. and acquired Sheldon L. Pollack Corp. to develop and build new hospitals.

Nashville's Hospital Corp. of America consisted of a single Nashville hospital until 1968, when it started on the acquisition trail. In 1968 revenues were \$26.9 million, earnings \$1.8 million; in 1969 revenues were \$50.6 million, earnings \$3.3 million; 1970's first half revenues were \$34.3 million, earnings \$2.3 million. HCA's hospitals are in the South, the border states and West Virginia. HCA is building and planning new buildings.

The third and oldest of the Big Three is Los Angeles' American Medical Enterprises, in existence for 14 years, but actively acquiring only since 1967. Results: 1968 revenues \$19.9 million, earnings \$1.0 million; 1969 revenues \$36.6 million, earnings \$2.2 million; 1970's first half revenues \$25.3 million, earnings \$1.7 million. AME's hospitals are primarily in California and Texas, with one in Eng-

Hospitals: A Statistical Profile

These five companies at last count had 10,600 hospital beds. Adding facilities under construction plus planned construction and acquisitions brings the total to over 20,000 beds. Extendicare and Beverly Enterprises are also in nursing homes, but their heavy expansion has been in hospitals.

Company	Common Shares Outstanding (millions)	Net Operating Revenue (millions)	Fiscal Year 1969 Per Share			Stock Data	
			Earnings	Dividend Paid	Stockholders Equity*	1969-70 Price Range	Price/Earnings Ratio
American Medical Enterprises	3.8	\$36.6	\$0.68	\$0.12	\$4.80	45 - 10½	22¼
American Mediacorp	8.5	77.6	0.68	none	1.03	42½ - 8¼	20¼
Beverly Enterprises	4.0	66.5	0.70	none	6.95	46½ - 6½	13
Extendicare	3.6	17.7	0.38	none	3.74	39½ - 14½	23¾
Hospital Corp. of America	4.4	50.6	0.71	none	4.75	53 - 15	20¾

*Excluding good will and other intangible items.



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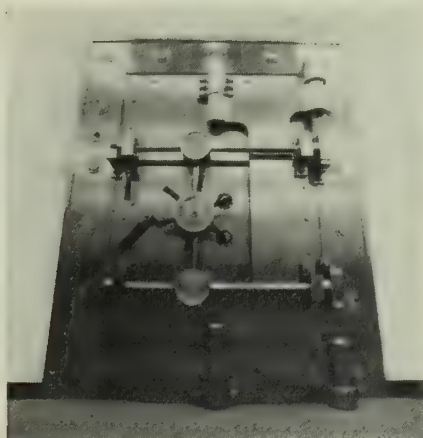
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They will continue some acquiring, of course, but most future expansion will be via the construction route. As one analyst put it to FORBES: "There's not much to acquire in the proprietary hospital field that's any good."

What with the demand for hospital service growing faster than the supply of hospital places, the growth of the profit-making chains is almost certain

to continue. There are, however, some major problems.

One problem is capital. With money tight, they are having difficulty borrowing money, and without big borrowings, these chains cannot get the kind of leverage they need for big profitability and for expansion. Then, too, the stock market collapse has hit them hard: At recent quotations the stocks of the five leading chains were off 56% from their 1969 highs. This makes equity financing unattractive.

There is the possibility of more state legislation, regulating such things as corporate ownership of hospitals.

Still, as FORBES pointed out in a recent cover story ("When Public Services Go Private," Sept. 1), there is a growing trend for private business to step in where public services become inadequate. And not even the most stubborn defender of present medical services would deny that much of our present hospital system is becoming less adequate every year. ■

Outsmarting Themselves

Coal prices are skyrocketing, but the nation's two largest producers are having to sit out some of the prosperity.

CONSOLIDATION COAL CO., at 60.9 million tons, and Peabody Coal Co., at 60 million tons, are the two biggest coal producers in the U.S. Over the last three years the price of high-grade metallurgical coal has jumped from \$6 to \$12 a ton and in some places as high as \$16 a ton. The price of steam coal, the kind electric utilities use, has risen from \$4.50 to as much as \$13 a ton for some spot contracts. Labor and production costs have gone up too, but nowhere near as fast. Consolidation and Peabody should be making money hand over fist. They are not.

At Consolidation, a subsidiary of Continental Oil since 1966, earnings declined 8% last year to \$18.8 million in spite of a 9% rise in sales to \$276 million. Peabody was acquired by Kennecott Copper in 1968 in a merger that is still being disputed by the Federal Trade Commission, and no longer breaks out its own figures, but the picture apparently was much the same. The trend has continued in 1970.

The problem is that Consol, Peabody and a number of other major coal producers began signing utilities to long-term contracts of up to 30 years back in the mid-Sixties. Most of these contracts, the companies assured their stockholders, had escalation clauses for protection in case of cost rises. But these clauses have not come close to covering the kind of superheated increases of the last few years coupled with spiraling union demands and a new mine safety act whose costs many in the industry call staggering. As a result, an estimated 75% of Consol's production is locked in at \$4-to-\$5-a-ton selling prices. About 80% of Peabody's output is tied up in contracts as low as \$3 a ton, and just a year and a half ago signed a \$100-million contract with the Tennessee Valley Authority to produce coal at \$3.95 a ton.

Despite this, the TVA, among other utility companies, is complaining that it cannot get enough coal for its needs even at \$8 a ton. Donald Cook of American Electric Power is not only proposing a ban on coal exports in order to conserve supplies for domestic use, but also claims that some of the utilities' problems are linked to the fact that some producers are not honoring their contracts and selling their production on the open market at today's prices.

Other big coal companies are saddled with long-term contracts too, including Occidental Petroleum's Island Creek Coal, the No. Three producer. Not many, however, have nearly as large a percentage of production tied up as Consolidation and Peabody. (The latter had more urgency to sign long-term deals.) Larger proportions of their output is steam coal for utilities, and in the mid- and late Sixties they sought protection against the onset of nuclear power.

A Bird in the Hand

But many of the long-term contracts are also a result of the way in which Consolidation and Peabody were acquired by their present parent companies. Back in 1966 Continental Oil, extending what had long been common petroleum industry practice, hit upon a clever way to acquire Consolidation without having to put up much stock or cash: use reserved coal production payments. In effect, the whole deal is financed out of pretax dollars. The tactic has since been banned by the Internal Revenue Service, but not before Kennecott was also able to use it in buying Peabody.

Though complex in its details and tax implications, the production payment works like this: The acquiring company assigns a certain amount of the coal company's future output to

pay off the principal and interest on the bank loan it uses to finance the acquisition. The bank in turn will sell the payment usually to a nontaxable institution at a one-half of 1% interest spread. In this way, Continental was able to swing the \$520-million purchase price for Consolidation by putting up only \$60 million worth of its stock and getting the remaining \$460 million by pledging future Consol production against a bank loan. Kennecott financed roughly half of its Peabody acquisition, or \$300 million, by means of such reserved production payments.

The rub was that in order to get the banks to participate in these deals, both Continental and Kennecott had to demonstrate, in the form of firm long-term contracts, that the future production in question could indeed be sold at a then reasonable price.

The ease of financing the acquisitions, plus the attendant tax advantages, made the arrangements very attractive at the time. Now the picture is much different. If Consol and Peabody were able to raise their prices \$2 a ton—a realistic possibility in today's coal market—each could bolster its revenues by more than \$100 million. Pittston Co., the No. Four producer which has relatively few long-term contracts, has already boosted its sales this year by \$25 million to \$247 million and its profits by 60% to 83 cents per share, and expects that this trend will continue for some time to come.

When FORBES asked Consolidation and Peabody about the situation, neither was very anxious to discuss it. The coal business, they replied in effect, is a long-term affair with ups and downs. Right now, however, and into the foreseeable future, it is mostly an "up" affair that neither is in a position to enjoy. ■

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And teaching them how it can bring a better life.



THE DISCOVERY COMPANY
270 Park Ave., New York, N.Y. 10017

The Flat-Footed Shoemakers

U.S. makers of ladies' shoes have just taken a hosing from European imports. Trouble was, the Americans had too high an opinion of their customers' taste.

ONCE UPON A TIME all the shoemakers in the land cranked out the same kinds of shoes. Sometimes their black pumps had bows, sometimes not. But customers bought them either way. Then one year a monster came from over the sea and ate the shoemakers alive.

A Grimm fairy tale for children? Not at all. It's a real-life horror story with a moral for U.S. shoe manufacturers: Be a leader in fashion—or stay out of the game.

In real life, the monster of the fable was the monster shoe, a radical style from Europe that caught our domestic shoemen flat-footed. Despite

the brutish ugliness of its bulbous toe and chunky heel, it soared to popularity among young women in 1968, while U.S. shoemakers rubbed their eyes in disbelief.

"Domestic manufacturers underestimated the monster," says Ed Kabat, who heads an import division of Standard Industries. "They couldn't believe women would switch from the swanlike tapered shoe to this ugly duckling." But the monster, unsightly as it was, looked shockingly in place with the new minis and pants suits the young girls were buying.

The importers who were attuned to the new fashion ran away with the market; often doubling their volume from 1967 to 1968 by serving the monster demand. Still the retailers wanted millions more pairs than the importers could possibly supply.

By mid-1968 most U.S. shoemakers were producing some monsters, but the industry as a whole held back. The high-volume producers were reluctant to make the substantial investment required to crank out large amounts of the radical new look: To shift over, even a medium-sized \$20-million company had to invest about \$800,000 in dies, lasts and patterns.

In the fall of 1968 with the monster bigger than ever, the domestic companies finally jumped in, putting a

heavy monster look into roughly 35% of their women's shoes, from sandals to evening wear.

You can guess the rest. By the time the domestic monsters hit the stores in volume in 1969, buyers were sick of the style. The young wanted something new: They would sooner go barefoot than wear a copy of last year's hot item. Older women, who perhaps bought one pair in 1968 against their husbands' wishes, never liked the look in the first place.

So the domestic manufacturers were twice foolish, first for ignoring the trend, then for plunging in after it was too late.

The monster's exact devastation is difficult to gauge. One knowledgeable wholesaler says that several big manufacturers who suffered earnings dips in 1969—including Genesco and Brown Shoe—unloaded thousands of unwanted monsters at half-price and less. All told, domestic output of women's shoes fell 18.6% in 1969 from the 1968 peak of 289 million pairs. And between 1967 and 1969 nearly 100 of 785 domestic shoe producers went out of business.

Most shoe companies are understandably vague about their own losses. For example, St. Louis' Wolff Shoe Manufacturing Co., after devoting 50% of its line to the heavy look,

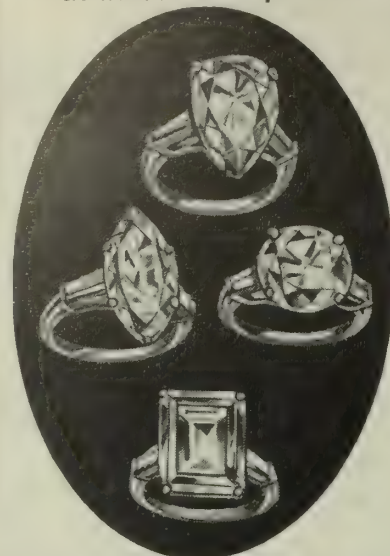


Gee Capp

The monster shoe was fine for Li'l Abner's Mammy Yokum. But U.S. shoemakers learned that most ladies would sooner go barefoot, like Daisy Mae, than wear chunky, mannish shoes.



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Hatteras Yacht Division
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admits to "breaking even" on the monster. However, it closed two of its four domestic factories last month. Eli Rouso of New York's Russ Togs, the \$123-million apparel maker, concedes with characteristic candor that his Andrew Geller division took an awful licking by shifting 25% of its output to the monster design "right near the end." Rouso has since padlocked Geller's lone retail store and two of its four factories. He is now thinking of closing down the \$16-million shoe operation entirely. Says Rouso: "Shoes looked good in 1968 when we bought Geller [for about 15 times earnings]. But we just don't understand the shoe business today."

On the contrary, by so admitting, Rouso shows that he understands far more about the changing shoe business than most old-time shoemen who are still dedicated to volume production of basic models.

"Those companies still want to make the same old things they always made," says a New York City retailer. "You see customers for that stuff every day on the obituary page."

Beyond the Monster

The monster fad ushered in a fashion-conscious age in which a shoe's quality, price, even fit, are secondary. Customers may not want designs as far out as the monster, but neither do they want the old black pump. Domestic shoemen must become at least as fashion-minded as their customers, or lose still more business to imports, which now supply over 32% of the 840 million pairs sold in the U.S. annually vs. only 4% ten years ago. Indeed, the monster pattern already seems to be developing with today's hot items—the boot and the supersneaker (see photo).

Only a few companies, notably Melville Shoe and U.S. Shoe, seem to have gotten the message (FORBES, Feb. 1, 1969). In a controversial speech last year, U.S. Shoe's chief executive Philip Barach urged the industry to work closer with domestic designers: "It's ridiculous," he charged, "that we as an industry spend practically nothing on creative R&D."

But many shoemen are merely fighting for import quotas, in a vain attempt to choke off the flow of fresh designs from abroad. The fact is, however, that nearly 35% of this year's imports will be produced by foreign companies under the control of U.S. manufacturers. And the big U.S. shoe companies are big importers.

The Europeans, especially the Italians, have more than fresh styling and lower-cost labor going for them. They also have some of the world's most automated shoe factories. In the U.S.,

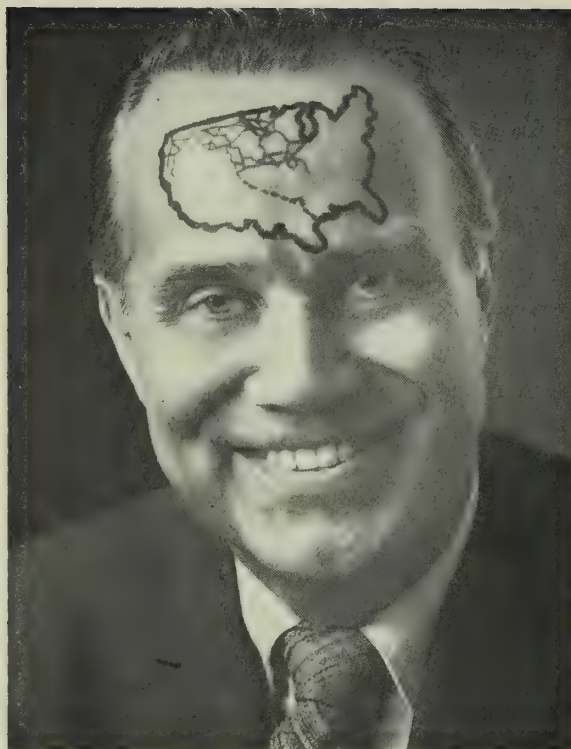


Supersneakers at \$18 and up are the new fad. Germany's Adidas started it by getting pros to wear its leather model.

however, hope for automation grows increasingly dim. Since the growth in the U.S. shoe market has gone to imports, domestic production hasn't been expanding, and there has been all too little investment in plant or equipment. As an American footwear executive remarks, "It would take a hell of a bold guy to invest now."

But by sitting tight, the industry merely transforms its own predictions of doom into self-fulfilling prophecies. If the current trend continues, by 1975 imports will far exceed 50% of domestic production, and domestic manufacturers will be dying with their black pumps on. It won't matter whether they have bows or not. ■

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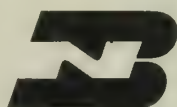
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BURLINGTON NORTHERN

Going places in the American West

Faces Behind the Figures

Subversion in Unexpected Places?

ATTORNEY GENERAL JOHN N. MITCHELL a potential subversive? In one unintentional way, that may well be the effect of some of Mitchell's actions, says a former top Kennedy Administration official. Lee Loevinger, 57, the Justice Department's antitrust chief from 1961-63, uses strong language about the Nixon Administration's antitrust policy, calling it plain antibusiness.

Now a partner in the Washington law firm of Hogan & Hartson, Loevinger says: "It's hard to know what Mitchell and [antitrust chief Richard W.] McLaren are getting at. But I think they're saying: 'Look, boys, we've changed our minds. Bigness is an offense.'"

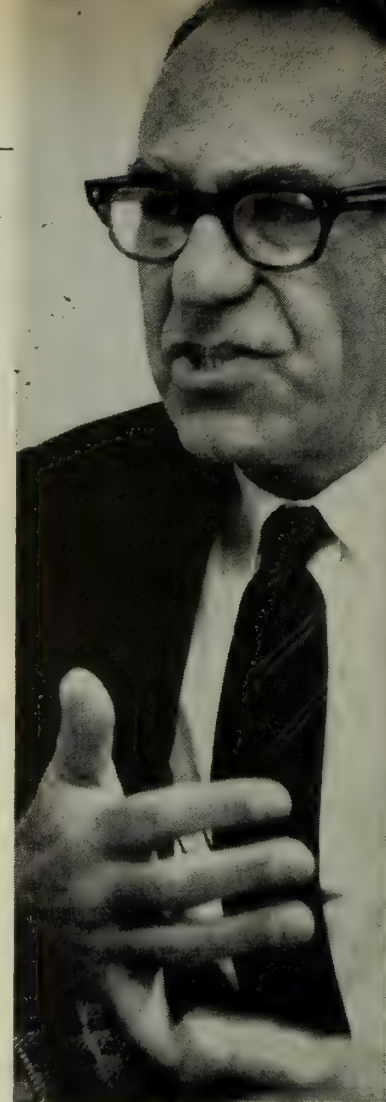
A prosecutor who prosecuted a near-record 93 antitrust cases in a single year, Loevinger two years ago joined a law firm that specializes in defending corporate clients against monopoly charges.

The root of the whole Mitchell-McLaren approach, Loevinger says critically, is the notion that potential can be equated with probability. Thus, big companies are being harassed because of their potential impact on a market, rather than their probable impact.

In the various International Telephone & Telegraph cases, for instance, Justice attacked on the grounds that the giant conglomerate had a potential for "reciprocity"—for forcing its subsidiaries and affiliates to buy products and services from each other. "When I was in Government I prosecuted one of the first such cases," Loevinger says. "But this was a special case. The company actually had a vice president in charge of reciprocity complete with cross-indexed card files and everything." But Loevinger thinks Mitchell and McLaren are going far beyond this.

"If potentiality equals proof," Loevinger goes on, "then accusation equals conviction; every citizen is a presumed criminal, and every prosecutor has the power of a tyrant. Under the potentiality theory, dissent equals revolution and revolution equals assassination, profits equal success and success equals monopolization. Under the potentiality theory, business success is illegal, and so is political opposition and social dissent. The potentiality theory is, thus, potentially the most subversive legal principle proposed to the American courts in recent years."

The controlling word, of course, is "potentially." ■



Attorney Loevinger

The Growth Continent

"THE AFRICAN CULTURE is powerful," says 60-year-old Moshe Mayer, Austrian-born chairman of Geneva's Mafit Trust Corp. and one of Israel's richest citizens. "But we are going to revise it."

An Israeli operating in Africa? When the whole northern part of the continent has answered the call to holy war against his country? It's not so strange as it sounds. There is a sharp difference in Africa between the Mohammedan north and the Christian and Animist central and western regions. In non-Moslem Africa, the Israeli-Arab feud is ignored. Quietly, Israel has been playing a fairly major role in many African countries which welcome Israel's western-style managerial/technological knowhow and with no threat of infiltration.

An international financier and developer, Mayer has already revised the skyline of Monrovia, cap-

ital of Liberia, by building its first skyscraper, a new city hall, a presidential mansion and an Intercontinental hotel. In 1962 he moved on to the neighboring Republic of the Ivory Coast where he built an-

Mayer of Mafit Trust



other Intercontinental, the 500-room Ivoire, in the capital, Abidjan. The Ivoire is the cornerstone of a 10,000 acre resort-residential-industrial development called the African Riviera. Through the project—which could cost \$2 billion over the next quarter-century—Mayer plans to transform rural villages into modern communities and direct the area's agrarian economy more toward tourism and light industry.

Mayer has raised \$30 million of the \$50 million he needs for the Riviera's first phase; but the money, from Mafit, the government and outside investors, doesn't all come easily. Some investors doubt its stability in an unstable continent. Others wonder if its steamy climate will ever attract tourists—in spite of its natural beauty. Mayer claims such doubts are unfounded, though he has arranged for Mafit to get a very rapid, juicy return on its investment. "Africa is the next growth continent," he insists. "I will be part of its growth." ■



Posner Jr.

Posner Sr.

Genius Revisited

VICTOR POSNER, a bombastic one-time Baltimore real-estate speculator, was a minor figure among Wall Street's conglomerators during the late Sixties, but what he lacked in scope, Posner more than made up in sheer brass. He parlayed a money-losing vulcanized fiber manufacturer named NVF (assets: \$25 million) into control of Sharon Steel (assets: \$200 million). More recently he gained control of Southeastern Public Service (assets: \$70 million) and a string of smaller companies through DWG. Posner promised both companies "new management" and talked of building a \$3-billion conglomerate.

One of his first moves was to

change the accounting firms of both Sharon and NVF and completely revamp their bookkeeping. The net effect was that NVF/Sharon revised its reported earnings for 1969 from \$1.3 million, \$1.34 a common share, to \$6.9 million, \$8 a share.

But, such is Wall Street's skepticism about accounting these days, that all this has gone entirely unappreciated so far as investors are concerned. Today you can buy NVF/Sharon on the Big Board for about one times last year's reported earnings; its debentures—which the New York Stock Exchange refused to list—yield a handsome 20% based on Pacific Coast Exchange prices. DWG, a Posner holding company, traded over-the-counter, sells at just three times earnings.

It may well turn out that none of these securities is the bargain it seems to be. NVF/Sharon has big debt maturities this year and reportedly has neither the cash flow nor the cash to handle them. NVF/Sharon—on the basis of unaudited figures—reported a 75% decline in earnings for the first half of 1970.

When Posner offered to trade a package of securities to the old owners of Sharon stock, most of them jumped at the deal. For a stock that hadn't sold above 40 for three years before Posner entered the picture, they were getting securities with a stated value of \$70 plus warrants and a market value at that time of \$49. But the gains proved illusory: Today the package is worth only about \$38 on the market. Posner's holdings alone in NVF/Sharon, which were worth about \$5 million in early 1969 are now worth less than \$1.5 million.

A year and a half ago, when Posner was riding high, *FORBES* commented (*Feb. 15, 1969*) that he was vastly overpaying for the companies he bought. But Posner (above, with son Steven, who manages Posner's real estate) told *FORBES*: "I am a genius." Maybe he was—in 1969. But in today's more sober environment, the definition of "genius" is tougher. ■

Goodbye to All That

IN the 18 months since John M. Seabrook, 53, took over from Philadelphia stockbroker Howard Butcher III as chief executive of International Utilities, the conglomerate has been reshaping itself in Seabrook's image. IU directly reflected Butcher's genius for nosing out undervalued situations for investment (telephone companies) or acquisition (Ryder Truck Lines). The result was an outfit that earned \$38 million last year on \$798 million in sales; the profit derived from a group of shipping, utility, trucking and capital goods operating companies and from gains on investments.

Under Seabrook, most of IU's investment portfolio has already been liquidated, and capital gains will count for less. "Butcher was first and foremost an investment banker," Seabrook says, "and saw everything as pieces of paper. We see them as operating entities."

An operating man himself, Seabrook ran his family food business (Seabrook Farms), then was tapped by Butcher to supervise IU's acquisition program. Most of the acquisitions were smart: Go-

taas-Larsen, a shipping outfit currently coining money; Ryder Truck, to be merged with Pacific Inter-mountain Express to form a nationwide system; and C. Brewer, largest landowner in Hawaii.

But IU has had its lemons as well: a massive investment in the bankrupt Penn Central, for one. "We sold 190,000 shares around the high [86] in 1968," says Seabrook. But he held on to another half million, and with the price around 8 has set up a \$3.4-million after-tax reserve against losses. Then too, IU's Walworth valve affiliate is once more in trouble. Having been turned around once, it is back in the red again.

What is encouraging, however, is that despite Walworth, the Penn Central losses and the decline in security profits, IU is currently having a good year. At mid-year, though total profits were off over 9%, operating profits were up 28%. With Walworth losses ebbing, Seabrook could well close the gap. ■

Seabrook of International Utilities



Golden Horse

BARRING a last-minute change in plans, Nijinsky, a powerful three-year-old thoroughbred, will burst from the starting gate at Belmont Park on Oct. 17 and attempt to gallop to his 12th victory in 13 races.

Even if he loses, Nijinsky will have won over \$650,000, somewhat more than the \$580,000 his sire, Northern Dancer, won before he was put out to stud, but far short of the record \$1.98 million that Kelso earned during his eight-year, 62-race career. Even so, Nijinsky could wind up making more money for his owners than any other race horse in history.

Consider some of these numbers the next time you line up at the \$2 window. Bred by Canadian industrialist E.P. Taylor, Nijinsky was sold in 1968 to multimillionaire Charles Engelhard, chairman of Engelhard Minerals & Chemicals Corp., for the bargain-basement price of \$84,000. Two months ago, after an unbroken string of victories which includes the English Triple Crown, Nijinsky was sold again, this time to a buyer syndicate, for a record \$5.44 million—more than 60 times Engelhard's original cost. At that, Engelhard retains ten of the 32 syndicate shares (worth \$170,000 each), Taylor



Nijinsky

holds two, and the rest are owned by men like John Hay Whitney, Paul Mellon, Ogden Phipps and Robert Kleberg. Not counting current shares, Engelhard emerges with a \$3.66-million profit—taxed at the capital gains rate.

But the new syndicate won't race Nijinsky. The Man o' War Stakes coming up at Belmont is his last run. Why is the horse worth millions when his racing days are over? Because Nijinsky is worth more as a stud than as a further winner. In future races he might lose, as he did for the first time early this month. Or break a leg. Then he couldn't be put to stud to produce a string of multimillion-dollar thoroughbreds. It's as a stud that Nijinsky's real potential lies hidden. It is not only his own record that indicates top stud potential; his sire, in winning the 1964 Kentucky Derby, set a track record of two minutes (for 1¼ miles).

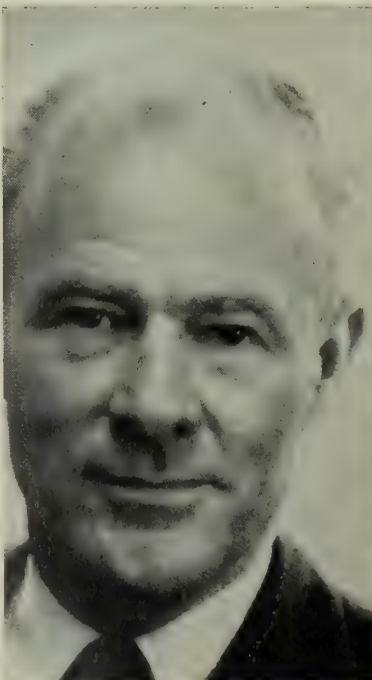
Even at that, there are risks, and Nijinsky could conceivably prove a poor stud. That would be a tough break for the syndicate members, who are entitled to mate one brood mare annually for each share owned. But basically, breeding and racing horses is like any other business: You don't earn the biggest profits without carefully calculating your risks. ■

Higher & Higher

"HONESTY is the best policy," Commonwealth Edison Chairman J. Harris Ward told himself earlier this year when the big Chicago-based electric utility took off to the Illinois Commerce Commission for its first rate increase in 12 years. "Instead of asking for a 9% increase and settling for 6%, we'll ask for what we *really* need." Ward asked for 6.1%, and what the Illinois Commerce Commission gave him was 4.5%. "It didn't work, did it?" he now says ruefully.

The result is that Commonwealth's earnings (\$132 million last year on \$801 million in revenues) are turning downward for the first time in 19 years. They were off 11% in the first half, and, despite the rate increase, Ward isn't sure they'll even reach \$2.95 for the year *vs.* \$3 in 1969.

For Ward, the squeeze on earnings comes at a particularly diffi-



Ward of Commonwealth Edison

cult time. Commonwealth is in the midst of a five-year, \$2.3-billion capital program, mainly to bring Commonwealth's nuclear capacity up from 5% of its total power output to above 40% by 1975. Ward already has two nuclear plants and will have seven more before the current program is over. Though he concedes that nuclear power costs have gone up, this hasn't dissuaded him of the long-term potential of nuclear energy. He has already signed long-term contracts to buy 4 million pounds of uranium from Australia beginning in 1974—"not because we thought anyone would run out of it, but because we thought the price would go up. So far we've been wrong."

Commonwealth Edison's nuclear program is going to take lots of money, which is why Ward considers Commonwealth's flagging earnings to be a particular problem. His solution? "Another rate increase is inevitable." ■



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The Unflappable M. Monod

NOEL MONOD, 59, may just be the lowest paid big-money manager in the world. For his salary of \$25,000 a year—\$20,000 after taxes—he manages around \$900 million in capital, trades actively in currency markets around the world and handles an extremely complex annual budget of \$169 million (\$183 million next year). Monod, a tall, thin Frenchman who dresses in gray suits and black ties, has been the first and only treasurer of the United Nations since its founding in 1946. He comes of an old French Huguenot family and has ties high up in French industry and finance. Jacques Monod, the Nobel Prize-winning scientist, and Lucien Monod, the painter, are cousins. Monod was educated in Britain and France, speaks four languages and was a successful French businessman (his company specialized in electrical instrumentation) before World War II.

Monod's biggest single chunk of money is the U.N.'s pension fund, currently \$500 million and growing by \$84 million or so a year. In investing this money, says Monod, "We have to be like Caesar's wife"—above suspicion. So his investment policies are "ultraconservative"—dollar-averaging and the like on stocks and minimum AA rating on bonds, with no more than 2% in any one issue. The profits are respectable but moderate: \$24 million in 1968 and \$29 million in 1969 (fiscal years vary among his funds). Monod counted it a resounding victory back in 1952 when, after four years of urging, his U.N. bosses finally agreed to give the fund the freedom to buy common stocks as well as bonds.

Currently, the pension fund's \$500 million is divided 60-40 between bonds and common stock, with about \$150 million in American common issues, \$50 million in non-U.S. common issues. "We're down like everybody else in U.S. common stocks this year," says Monod. "But we recently rated ourselves against 45 other funds, and we were in the first 10%. In the last six months, I pushed for substantial purchases of high-interest bonds." He already holds around \$180 million in U.S. corporate bonds. Thus, including both equities and fixed-interest obligations,



Monod of the U.N.

some two-thirds of all the money is in U.S. issues.

Wouldn't it be more appropriate for an international organization to have a more international portfolio? Monod is moving that way, but there is a hitch, a familiar one. "One problem is that the markets outside the U.S. are often too small to absorb large sums," he says. "It's bad enough on the buy side. But occasionally I've had bad nights thinking what would happen to the Paris market if I suddenly, say, put \$500,000 worth of Michelin stock on that market."

He also handles the U.N. Development Program portfolio, which has about \$150 million of its \$200-million budget invested, pending disbursement on various projects. This money is mainly short-term and mainly in the currencies in which the funds will be paid.

Monod's busy arbitrage operation arises out of the fact that the U.N. has employees and operations all over the world. It pays the bulk of its personnel in other countries in the currencies of those countries. That means keeping tabs on all changes in rates of exchange and especially devaluations. Monod works through banks that give him

foreign quotes by Telex in ten minutes. "At the moment," he says, "I'm engaged in a substantial operation selling Swedish kroner against dollars here. This is a public organization, heavily scrutinized by auditors, and I must be sure of getting the best rate. On the other hand, if I announce too loudly that I am going to buy, say, \$2 million in Sweden tomorrow, it might mess up the rate of exchange. What do I do? Consult quietly with two or three banks—I concentrate on Irving Trust here and Banque Worms in Paris—which won't spoil the market and I can be reasonably sure will give us their best rate."

Monod stays out of forward currency markets "because we must not give even the impression of speculating for or against a member state's currency," he explains. But in a case like the period leading up to the devaluation of the British pound in 1967, it was to protect the U.N. that he says, "I naturally pushed my people to use sterling to disburse, so that we would be caught with as little sterling as possible."

Monod is not the sort of man to engage in public controversy, but it's no secret that there is rivalry between Paul Hoffman's U.N. Development Program and Robert McNamara's World Bank. About all that Monod will say is: "We lent the World Bank \$10 million at 6%, and McNamara turns around and places it at 10%. I could do the same thing."

He also has constant problems with member states—which is not surprising since there are some 127 of them, some rich and powerful, some poor and weak, but all of them proud and opinionated. "There are 127 auditors-general who think they know better how to invest their money than we do. But, on the whole we do extremely well. I defy anyone else to do as well with what we have."

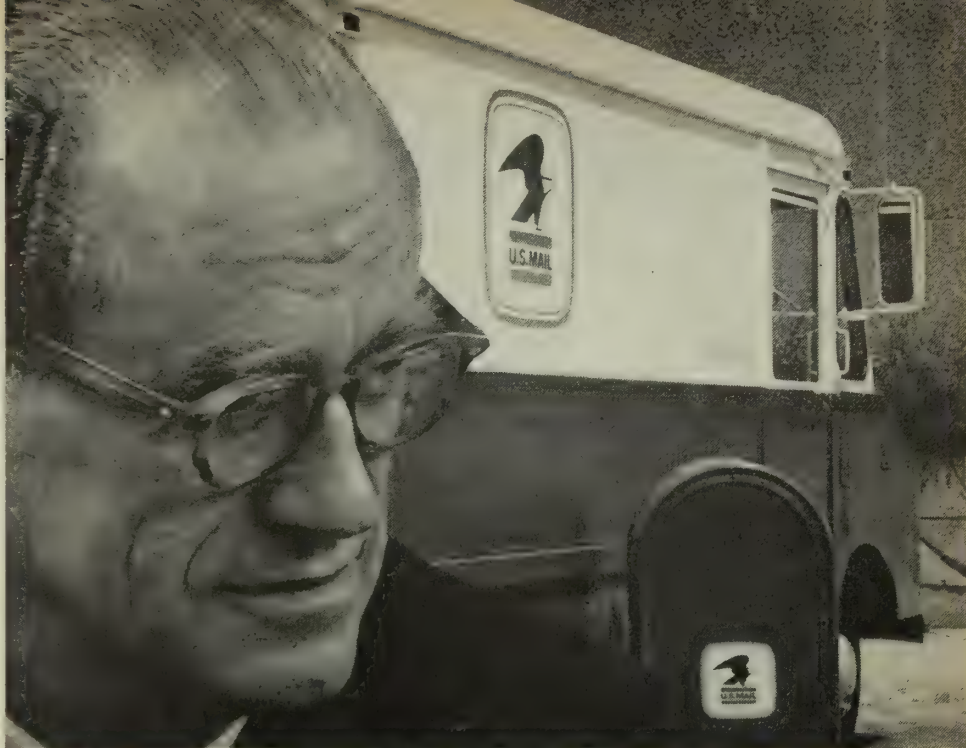
Monod says that proudly, but not arrogantly. You get a clue to his character when you ask him why he forsook a good-paying career with a family company for a low salary and a high quota of headaches. First he cites his family's tradition of public service. Then he adds: "There were many things I saw in World War II that I would rather not see again." ■

Candidate Klassen

It took Elmer T. Klassen 40 years to rise from office boy to president at American Can Co. Then, after only three years at the top of the world's biggest packaging complex, he suddenly quit in 1968.

Klassen, now 62, still won't say why he left a \$200,000-a-year job. Associates suggest what bugged him was that William May, a younger man who is still Canco's chairman and chief executive, was already in the top job. But true or not, early last year Klassen let himself be persuaded by Postmaster General Winton M. (Red) Blount to sign on at \$40,000 as Deputy Postmaster General, the No. Two spot in the most unbusinesslike U.S. Government department.

It may also be the place where Klassen gets his first chance to run his own show. Under the landmark Postal Reorganization Act, the Postmaster General, long the top operating politician of the party in power, will no longer be appointed by the President. Red Blount, a major architect of the changeover, is a likely prospect to become chairman of the nine-man board of governors whose names the President will submit to Congress this fall. The governors, acting much like a board of directors, then choose the Postmaster General.



Klassen of the Post Office

They will have a hard time ignoring Klassen, who could combine top operating experience with intimate knowledge of the postal reorganization. If Klassen gets the job, he'd be chief executive of an outfit with 14 times Canco's employees and 3½ times its revenues, or some \$6 billion in postal revenues.

He would also have the staggering job of implementing the reorganization. "It's going to be a hell of a job of industrial relations," says Klassen. He says it while relaxing

in shirtsleeves in an oak-paneled Washington office that he says—like the Post Office itself—is so big that it is inefficient. But he insists that the Post Office can be run like a business even if its competition—notably, United Parcel Service—is minuscule.

Would Klassen like to be the businessman who tries it? When asked, he comes on like a politician leaving doors open. "I haven't been offered the job," he says. "I'd have to think about it." ■

It's the Little Things

HARRY HELTZER, who takes over Nov. 1 from retiring Bert S. Cross as chairman and chief executive of big (\$1.6-billion sales) Minnesota Mining & Manufacturing, has a simple, unworkable recipe for keeping sales and earnings growing despite a dull business climate: "Don't let your sales people read economic reports."

Heltzer, who started at the bottom at 3M in the Thirties and reached the presidency four years ago, knows what's really behind the St. Paul firm's consistently excellent record: Minnesota Mining sells thousands of small-ticket items, from tapes and abrasives and useful office gimmicks to graphic devices and medical accessories. The major business virtue of such things is that they don't get cut back so sharply in a downturn. "When was the last time you went through

Heltzer of 3M



your office checking lead pencils?" Heltzer asks.

That's how 3M, despite a down-draft on some of its industrial sales and no big market penetration yet for its new color copier, still managed to boost earnings 7.8% to \$179 million last year, and netted another \$90.6 million (up 5.9%) in the first half of this year. "If the automobile companies don't build so many cars, then we don't supply so much in abrasives," Heltzer says. "But the people who aren't buying new cars take them back to be repolished, so there we can get a counterbalance."

In following Bert Cross into the top spot at 3M, Heltzer says he's going to do just what Cross did—concentrate on developing overseas business. "It's over 30% of our total volume right now, and growing at around 15% a year. Which is a lot faster than what we're doing at home"—about 11%. ■

FORBES MAGAZINE'S RESTAURANT GUIDE

60 FIFTH AVENUE NEW YORK, N.Y. 10011

FEBRUARY 7, 1970 Vol. 1 No. 5

Ratings range from a minus two stars (—☆☆) to a rare few ★★★★★.

LUCHOW'S (—☆☆)
110 East 14th Street GR-7-4860
Reservations accepted. AE, CB, DC.

There are those who insist that Luchow's isn't what it used to be. It's not hard to understand why. Much of the German food has that cooked-weeks-ago taste and look, it's served lukewarm and dried out. Service is practically nonexistent, though staff is superb. And if noise really does cause loss of hearing, Luchow's is the place to go deaf.

The bill of fare at this 86-year-old landmark is extensive, and to some extent the quality may depend on the luck of your choice. On one occasion at least, the Wiener schnitzel (breaded veal cutlet) à la Holstein mit Bratkartoffel had surpassed the crisp stage and was overdone. The Bratkartoffel (fried potatoes) had been protected from these deprecations by a sturdy coat of batter. We had better luck with smoked eel (passable) and blue point oysters (fine).

Luck failed completely on another visit. Braised leg of Canadian hare was dry and unappetizing. So was just about everything else.

Cocktails are to be recommended as a means of whiling away the time during occasional glimpses of your passing waiter. Inattention seems to be the hallmark. If your out-of-town guest insists on seeing this old haunt of Lillian Russell, Diamond Jim Brady and Enrico Caruso, order with your first drink.

Lunch for two can be as low as \$13, including cocktails and tip, if you order table d'hôte. Ordering à la carte could bring it up to over \$20. Dinner for two, including cocktails, wine and tip, around \$30 (with a \$10 range on either side, depending on what and how you order).

There's music from a string trio and, during festival weeks, from a band. But the noise in the place may prevent you from hearing it. The decor is the only real plus for Luchow's. It's unique — huge, high ceilings, musty old paneling — absolutely great. The best way to see Luchow's is to do just that — put your head in, look, and leave.

Open Monday-Saturday, 11:30 A.M. to 11:45 P.M.; Sunday, noon to 11:45 P.M.

LA POPOTE
232 East 58th Street EL 5-8965
Reservations advised. AE, DC

This Restaurant Français is neither a discovery nor a disaster. An attractive, cellar-y decor. The lights are a bit too dim to see the food, which should at least be visible since it's mostly not memorable. The avocado vinaigrette, for instance — the avocado itself wasn't quite ripe and the vinaigrette seemed to be just vinegar. On the other hand, the roast potatoes were first-rate.

The service is pleasant, the prices moderate, and the noise level low. A great place to take someone whom you might not want others to see you with — a clandestine merger discussion, a personnel pirating session, or just a nice gal you might not want to have your wife's friends see you with.

Price: \$36 for two — wine, cocktails and tips included.
Dinner only. Open Monday-Saturday, 5:30 P.M. to 1 A.M.; Sunday, 5:30 to 11 P.M.

You can have the next four issues free!

Here are just a few sample reviews

LE STEAK★★★
1089 Second Avenue (between 57th and 58th Streets) 421-9072
Reservations advised. AE, DC.

Unique, and one of the best meals available in New York City. Despite the name, it is not a steak related in any way to the American charbroiled variety.

Le is the key — French in every aspect, from bare decor with coats and hats on racks in the window bays to the fabulous mustardy-vinegary steak sauce. The steaks themselves are lean, tender and not unappetizingly gargantuan. We've never had better French fried potatoes — thin, moist-crisp; we've never had better French salad dressing — on cold, fresh greens. The only menu choice is dessert, and the only concession to American steak house habits is the serving of the large bowl of salad first.

The wines are simple, inexpensive and very good.

The customers are uncreaky intellectuals and people who like to eat well without paying inordinately for the privilege.

This place is different. Totally unpretentious, small. There are only 20 tables. The tables are not so close together that you cannot converse. It's an all-French girl cast under the management of Mademoiselle Claude.

Dinner for two, including cocktails, wine and tip, comes to about \$30.

Le Steak is open for dinner only, Monday-Saturday from 5:30 to 10:30 P.M. It is closed Sundays.

BRASSERIE★★
100 East 63rd Street PL 1-4840
Reservations are accepted for dinner only. AE, CB, DC, MC.

If you want or need to eat at hours of the day or night when no one else is, go here where everyone is. The Brasserie has a cold-cool decor and the coolest, coldest crowd in town. It certainly has the most sophisticated unrich patrons in the city.

The menu is quite varied and much of the food is pretty good. Because of the restaurant's small-meal victuals — sandwiches, omelets, Quiche Lorraine.

The Brasserie has its share of uptown Village types because they can sit in comfort and dawdle long over a carafe of inexpensive wine, or choose from an assortment of good beers, at the counter-and-stools.

Try to try the Brasserie. Not at lunch hours or dinner hours, but at the unordinary hours when it is an extraordinary place; at dawn after a late dance or theater-and-nightclub stint, or if you're famished at 11 A.M. or 3 P.M.; or if you're fueling up for a long day at 6 A.M.

Prices range from a few dollars for two snackers to the low \$20s for complete meals. Open 24 hours a day, every day.

RESTAURANTS REVIEWED JANUARY - SEPTEMBER, 1970

(Six or seven new ones are added each week)

ACT I
A LA FOURCHETTE
ALCONQUIN HOTEL
Lounge
Oak Room
Rose Room
ANTLERS
ARIRANG HOUSE
ARTIST & WRITERS
ASSEMBLY STEAK HOUSE
ASTI'S
BACCARA
BARBETTA
BARCLAY HOTEL
The King's Inn
BAROQUE
BEGGI'S
BENIHANA OF TOKYO
BILL CHAN'S GOLD COIN
BLUE SEA
BOATHOUSE
BRASSERIE
BROADWAY JOE
BRUSSELS
CAFE ARGENTEUIL
CAFE BRITTANY
CAFE CHAUVERON
CAFE EUROPA
CAFE ST. DENIS
CAMELOT
CAPTAIN'S TABLE
CARACALLA
CASA DI PRE
CASTILIAN
CATTLEMAN EAST
CAVANAGH'S
CHALET SUISSE
CHARLES A LA POMME
SOUFFLEE
CHARLES FRENCH
RESTAURANT
CHARLEY O'S
CHARLIE BROWN'S
CHATEAU HENRI IV
CHEZ RENEE
CHEZ VOUS
CHEZ YVONNE
L'ESCARCOT
CHRIST CELLA

CHRISTO'S
CLOS NORMAND
COACH HOUSE
COACHMAN
COPENHAGEN
CHOW LU
DARDANELLES
DAWSON'S ENGLISH PUB
DERBY
DINTY MOORE'S
SEAFOOD HOUSE
DORSET HOTEL
DOUBLE DOLPHIN
DOWNING SQUARE
DU MIDI
EBERLIN'S
EL PARADOR
FERDI'S
FIN'N CLAW
FONDA LA PALOMA
FONTANA DI TREVI
FOUNTAIN CAFE
FRANKIE & JOHNNIE
FRANCES TAVERN
GAETANO'S RISTORANTE
GAGE & TOLLNER
GALLAGHER'S
GATSBY'S
GENE'S
GEORGES REY
GIAMBELLI
GIAMBELLI 50th
GINGER MAN
GINO'S
GIORDANO
GLOUCESTER HOUSE
GROUND FLOOR
HOTEL CARLYLE
Regency Room
IL BAMBINO
INN OF THE CLOCK
IRORI
ITALIANISSIMO
ITALIAN PAVILION
JACK DEMPSEY'S
JAGER HOUSE
JAI-ALAI
JAMAICAN
JIM DOWNEY'S

JOAN MARSH'S PIPELINE
JOE'S PIER 52
JOHN BARLEYCORN
KABUKI
KASHMIR
KEEN'S ENGLISH CHOP
HOUSE
LA BUENA MESA
LA CABANA
LA COTE BASQUE
LA CROISSETTE
LA FONDA DEL SOL
LA GRENOUILLE
L'AILGON
LA MAGANETTE
LA PETITE MARMITE
LA POPOTTE
LA POTINIERE DU SOIR
LA POULARDE
L'ARMORIQUE
L'ARRE'S
LA TOQUE BLANCHE
LE BIARRITZ
LE CHAMBERTIN
LE CHAMPIGNON
LE CHANTECLAIR
LE CYCNE
LE MADRICAL
LE MANOIR
LE MOAL
LEOPARD
LE PERIGORD
LE PONT NEUF
LE PROVENCAL
LE STEAK
L'ETOILE
LE VEAU D'OR
LES CHAMPS
LES PYRENEES
LIBRARY
LOBSTER
LOTUS EATERS
LOUIE'S SHORE
RESTAURANT
LOUISE JR.
LUCROW'S
LUTECE
MAD HATTER
MAMA LAURA

MAMMA LEONE'S
MANDARIN HOUSE EAST
MANERO'S
MANNY WOLF'S
MARCI'S
MARTELL'S
MAUD "CHEZ ELLE"
MAX'S KANSAS CITY
MAXWELL'S PLUM
MERCURIO
MINETTA TAVERN
MR. & MRS. FOSTER'S
PLACE
MIYAKO
MON PARIS
MONK'S INN
MYKONOS
NAT SIMON'S PENGUIN
NICOLA PAONE
NIPPON
O. HENRY'S STEAK HOUSE
OLD FORGE STEAK HOUSE
OLD HOMESTEAD
ORANGERIE
ORSINI'S
OSCAR'S DELMONICO
OSCAR'S SALT OF THE SEA
PAK-INDIA CURRY HOUSE
PALM
PANCHE VILLA'S
PASSY
PEARL'S
PEKING HOUSE
PEN & PENCIL
PER BACCO
PETER'S BACKYARD
PHILIPPINE GARDEN
PICCOLO MONDO
PIERRE'S
PIREAEUS MY LOVE
PLAZA HOTEL
Edwardian Room
Oak Room
Oyster Bar
Palm Court (brunch)
PRESS BOX
PROMENADE CAFE
PROOF OF THE PUDDING
QUO VADIS

RAINBOW ROOM
ROCCO RESTAURANT
ROMEO SALTA
RUC
RUGANTINO
RUNNING FOOTMAN
RUSSIAN BEAR
RUSSIAN TEA ROOM
SAITO
SAN MARCO
SAN MARINO
SARDI'S
SEAY NOVA
SAY-FARE OF THE
AEGEAN
SHUN LEE DYNASTY
SIGN OF THE DOVE
SIRO'S
SPANISH PAVILION
SPATS
STEAK & BREW
STEAK CASINO
STOCKHOLM
SWEETS
TAVERN ON THE GREEN
TEDDY'S
TOLEDO
TOPKAPI PALACE
TOWER SUITE
TRADER VIC'S
TRATTORIA
UNICORN
VASATA
VESUVIO
VIA MARGUTTA
VIA VENETO
VINCENT PETROSINO
VOISIN
WALDORF ASTORIA
Bull & Bear Bar
Bull & Bear Restaurant
WHYTE'S OF FULTON
STREET
WHYTE'S OF 57th STREET
WINE AND APPLES
YE OLDE CHOP HOUSE
XOCHITL

Forbes Magazine's new Restaurant Guide gives you the most candid reviews ever written

SIGN OF THE DOVE (—)
1110 Third Avenue (at 65th Street)
Reservations advised: AE, CB, DC, MC

UN 1-8000

Sign of the Dove is a new restaurant in the heart of Manhattan. It is a small, intimate place with a warm, cozy atmosphere. The food is excellent, and the service is top-notch. The prices are reasonable for the quality of the food. The restaurant is a must-visit for anyone who loves good food and good service.

The Sign of the Dove is a new restaurant in the heart of Manhattan. It is a small, intimate place with a warm, cozy atmosphere. The food is excellent, and the service is top-notch. The prices are reasonable for the quality of the food. The restaurant is a must-visit for anyone who loves good food and good service.

SARDI'S★
234 West 43rd Street LA 4-0707
Reservations advised: AE, CB, DC

Sardi's remains the New York theatrical restaurant. It still draws the stars and the supernumeraries on opening night, and the runners-on and the tourists who come to gawk at them. The decor isn't much — red leatherette and red linen, coral-ink fixtures and the caricatures of Broadway and Hollywood greats lining the walls — but the atmosphere is electric with celebrity. Even those who don't know the stars are drawn in by the atmosphere.

Brisk and attentive service is helped along by Sardi's seeming determination to turn over its 130 seats as quickly as possible. At one after-theater supper, we were nudged twice about ordering during the first ten minutes after our cocktails arrived. At a lunch, cannelloni alla Sardi's (in a cheese sauce) appeared at our table within five minutes after it had been ordered, if they had taken a couple of minutes more, it would have been hot enough and a satisfactory dish.

The food is so-so, nominally Italian, but more Broadway than anything. The hot shrimp was heavy with sauce (scorched) and light on shrimp. The beef brochette was tasteless. But the Boccione di veal — literally, sweet mouthful (strawberries, cream, chocolate with a meringue topping) — almost too rich to eat. And the strawberries in zabaglione sauce (firm, sweet, fresh) were a triumph.

It's a bustling place, but the noise is muffled and you have no difficulty hearing either your companion or your neighbor at the next table. Besides the main dining room, which is the place to see and be seen, there's a bar, and a second dining room upstairs, which, if you don't mind sitting in Siberia, is the room for quiet, serious talk.

Sardi's will move heaven and earth to get you fed and out on the street in time for your curtain, but you'd probably do better dropping in after the theater and ordering sandwiches for Broadway buffs basically.

Three-course lunch, drink and tip for two, \$20. Full dinner or supper with drink and tip for two, about \$30. There's a two dollar per person minimum in the main floor dining room for after-theater supper. The wine list is satisfactory with nothing outrageously expensive.

Open Monday-Saturday, 11.30 to 1 A.M. Closed Sunday.

Where should we eat—and how well?

When a business executive takes a colleague to lunch or dinner in New York City, the objective is generally a meeting of the minds as well as a feeding of the matter. Many seemingly complex business proposals have resolved themselves completely, over cocktails and portions of feathery pike dumplings with sweet lobster sauce. And multi-million-dollar deals have been known to materialize by the time the chocolate mousse arrived.

Under the circumstances, it's hardly wise to leave the selection of a restaurant to chance. A thoroughly sound, responsible restaurant guide is needed. One that is candid, rather than wary of offending somebody. One that's written by persons who know and appreciate fine food, rather than by faddists in search of the esoteric. In other words, a guide exactly like Forbes Magazine's new Restaurant Guide.

FOR THE DINER OF CULTIVATED TASTES

Forbes Magazine's Restaurant Guide is written for the use and convenience of every discerning diner who relishes a fine meal, and wants to know where he can sit down to one, amid genial and interesting surroundings. The guide is published every week, and covers six or seven New York City restaurants in every issue. Each restaurant is reviewed from every point of interest to the selective diner. What are the quality and character of the food and drink? How courteous and efficient is the service? What is the nature of the clientele? How agreeable is the atmosphere? How agreeable is the check? Plus many other fine points that help make dining out a delicious delight. Or tasteless tedium.

REVIEWERS ARE FORBES EDITORS

Our reviewers are members of the Forbes editorial staff, some of whom have sampled the wares of the world's most respected cuisines. They are completely unawed by reputations that give evidence of not having been duly earned, as a couple of the recent reviews shown on these pages will indicate. In paying their visits to restaurants, our editors are careful to preserve their anonymity. This is necessary, since their purpose is to serve restaurants operating under the normal tenor of business. The Restaurant Guide rates its subjects according to exacting Forbes standards. Seven ratings are possible, ranging from minus two stars to a top rating of plus four stars, which is rare. The

food itself is the way to the stars. No restaurant will ever receive a higher rating than the food deserves.

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FORBES MAGAZINE'S RESTAURANT GUIDE

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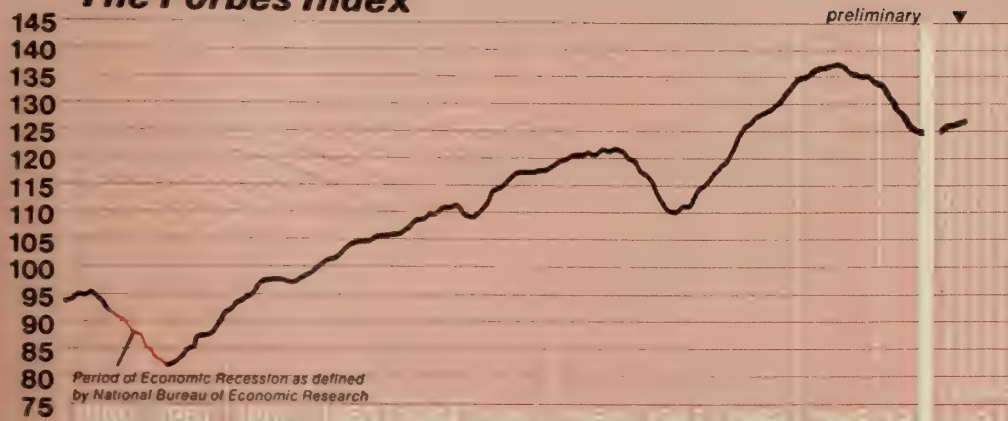
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FEB.	130.9
MAR.	129.0
APR.	127.8
MAY	126.1
JUNE	125.7
JULY	127.0
AUG. (prel.)	128.0

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- How much are we producing? (Federal Reserve Board Index of Industrial Production)
- What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders of durable goods related to inventories)
- How intensively are we building? (Dept. of

Commerce privately owned housing starts)

Consumption

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

Income

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



More Trading, Less Investing

IT SEEMS to me that there is more in-and-out trading and less investing for the long pull than there was several years ago. Certainly there is more in-and-out trading by mutual funds. And from my observation, individuals are buying and selling more often. Perhaps that's one reason why the volume of transactions on the New York and American Stock Exchanges has recovered more rapidly than it had after previous major stock market adjustments.

For individuals, this more rapid turnover may make sense. In the first place, most individuals this year have either actually accrued or have paper losses which they can charge off against profits, and thus save taxes. Second, much of the activity has recently been in the type of stock (speculations) which you "take out for the evening" rather than in issues (investment quality) which "you take home to mamma." Third, in these days of political, economic and social uncertainty, the long-pull outlook does not seem to be as clearly defined as it was five years or ten years ago. Finally, many investors during the past

two years have seen large paper profits melt away in a bear market, and they are resolved that in the future profits will be nailed down before they manage to get away.

Where the outlook is reasonably clear and the price still realistic, it does not seem necessary to take profits. I'm thinking, for instance, of stocks like *Arvin Industries*, *Federal National Mortgage*, *General Motors*, *Chrysler*, *Eaton Yale & Towne*, *McCulloch Oil*, *Gulf Oil*, *Standard Oil of New Jersey* and *Standard Oil of California*. On the other hand, profits in things like *Global Marine*, *Kentucky Fried Chicken*, *Memorex*, *Skyline* and *Fleetwood* might be tempting.

Things To Come

I'm sticking to the same broad pattern of probability: some decline from the recent high in the averages; support somewhere above 700 on a setback; no test of the old May bear market lows, and probably 800 or better in the DJI before the end of the year. I would guess that November will be a better month than October, and that December will be a better month than November.

Some people are saying there will

be more tax selling this year than in a long time. I agree. It has been my experience, however, that most people who sell to record a loss for tax purposes buy something else with the money immediately. This has the effect of neutralizing the influence of tax selling on the general price level.

Since the first of June, the clients of investment houses have been making money again. That's something new, as the stock market for the two years ended with May was the best place in the world to lose money. When investors make money they feel better, and optimism replaces pessimism. The NYSE claims that there are about 30 million individual investors now. When only a few of them come back, it is possible for the brokers to do 20 million shares on the NYSE and 7 million shares on the ASE, as they did recently. That makes the brokers feel better too!

The General Motors strike is still in progress as this is written, with little visible prospect of an early settlement. Most people don't absorb the fact that GM is a big part of the whole economy. The company's sales in this country are about \$20 billion a year, and it makes about 50% of the automobiles sold. Obviously this strike, if it lasts much longer, will have an effect on such things as the gross national product, the index of production and the 1970 profits per share of many companies that provide GM with parts, as well as the profits of the company itself. The strike is not the boon to Ford and Chrysler that some people surmise. When the automotive strike is over, however, it should

Mr. Hooper is associated with the New York Stock Exchange firm of W. E. Hutton & Co.



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give the economy a little bounce.

It is a time-worn adage, and usually a pretty good one, that stocks or a stock should not be sold during a strike; and I would much prefer to buy General Motors (72) on weakness rather than to sell it on strength. I can't help thinking that, if the strike lasts much longer, it will be at least a minor negative factor in the market as a whole.

The results of the November election should not be much of a market influence if the results are as expected. The general expectation apparently is that Congress will remain in the hands of the Democrats, and that the opposition party will regain some State Houses, but not a majority of the governors. If the Republicans should gain control of the Senate, and there is an outside chance that they can, The Street's conservative prejudices would make the election a temporarily bullish factor.

Brief Comments

Steel shares could easily be a good trading purchase when the poor reports for the third quarter are published. This industry should do better in the first quarter of next year. *Armco Steel* (21), *National Steel* (39) and *U.S. Steel* (31) would be my selections for those who want a risk in steels. . . . When the strike is settled, I would expect more trading interest in the motors, and I favor *Chrysler* (27) because of the economies the management has put in force and the leverage in the stock. . . . In general, I think aerospace shares are uninteresting for those expecting early results. The three which look best to me are *United Aircraft* (35), *McDonnell Douglas* (21) and *North American Rockwell* (18) in that order, but I am not enthusiastic about any of them. . . . The energy shortage bodes well for the coal and natural gas shares. Some oil companies will have to produce more fuel oil and less gasoline, and fuel oil normally is not as profitable as gasoline. It is inconsistent, however, to be bearish on oils if one is bullish on the demand for energy. . . . I like the "big" oil companies such as *Gulf* (28), *Mobil Oil* (53), *Standard of California* (which looks cheap at around 46) and *Standard of New Jersey* (67).

I differ violently with those pundits and advisers who look for the stock market to go back to the lows of last May. I think the bear market is over and is history. That, however, does not rule out the possibility of a retracement of one-third to one-half of the gross advance of 150 DJI points from the lows of May 26 to the highs of Sept. 8. ■

TECHNICIAN'S PERSPECTIVE

By John W. Schulz



Investors: Think Major Uptrend

MORE AND MORE, the accumulation of evidence during the past three months has tended to support the thesis that the major trend of common stock prices first turned from down to flat in June-July and then from flat to up in August. In other words, the bear market ended on May 26, with the Dow Jones industrials hitting bottom at 627.46.

As is usual early in a broad new trend, the evidence which this column has been tracking carefully was predominantly technical in character. On the "fundamental" side, all we have are some preliminary indications that the 1969-70 slowdown is leveling off and an emerging consensus that the economy should be moving toward a normal rate of "real" growth in 1971.

Meanwhile, the tangible key elements on the technical side were a massive buildup of liquidity and surplus buying power among institutional and noninstitutional investors alike, the result of typically belated net stock sales and/or cash hoarding; and a no-less-significant buildup of liquidity within the banking system, the consequence of the Federal Reserve's continuing deliberate push toward easier money and credit.

Impetus for Rising Prices

More specifically, the mutual funds entered September with collective reserves of cash and equivalents equal to 11.3% of their total net assets, all but nominally lower than July's record 11.8%, while the ratio of fund stock redemptions to average net assets for the past 12 months declined from 7.2% for July to 6.4% for August, the lowest in almost three years. In my opinion, the spread between the two ratios suggests that the funds' effective surplus buying power, going into September, may have approximated \$2 billion, or almost twice the maximum ever spent collectively by these institutions for net stock purchases during any calendar quarter on record. Considering that the funds' inflow of new cash from the net sale of new shares to investors has lately been running at over \$400 million quarterly, this surplus is not likely to shrink much in a hurry and so could

be expected to function as a major potential source of demand for common stocks over many months to come.

Individual investors, who, as a group, have been net sellers of stock for years, also seem to have accumulated great quantities of surplus cash. During the first half of 1970, individuals added over \$9 billion to their savings accounts (vs. only \$1.9 billion in last year's second half), after investing a huge \$5.9 billion in corporate bonds (against \$2.7 billion in the preceding six months).

These trends suggest that private investors can spend more for goods and services and still continue to pour money into the mutual funds without greatly stepping up their now customary net liquidation of other equity securities (even without liquidating any substantial portion of their newly acquired bond holdings). In other words, it seems again possible to envisage a growing excess of the institutional demand for common stocks over the noninstitutional supply. Under such conditions, the overall stock price level could advance even though additions to the supply of stocks from corporations' new equity capital might remain heavy.

No less important, there seems to be no valid reason for expecting an early shift toward tightening in the general background of money and credit, so vital for the stock market's overall technical health. Growth in the narrowly defined money supply (demand deposits plus currency) has proceeded at a favorable, though far from excessive, annual rate of about 6.5% over the past six months and at a relatively conservative rate near 4% since early this year. The much steeper growth rates of the money supply (including time deposits) reflect mainly a rapid return flow of lendable funds into the banking system from other areas of the money market, not an undue expansion of overall credit, and so should not call for a reversal of the Fed's supportive policy.

These very basic considerations, I think, provide ample grounds for taking the new major uptrend at full face value, for assuming that DJI reactions will not exceed three-eighths to one-half of prior gains in the visible future. ■

Mr. Schulz is a partner in the New York Stock Exchange firm of Abraham & Co.

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STOCK ANALYSIS

By Heinz H. Biel



Favorable Signs

WHEN the stock market becomes impervious to bad news and responsive to good news, we have what I believe to be one of the strongest indications that the bear market has ended. We had a lot of bad news last month: Three airplanes were hijacked and blown up, with the passengers held as hostages for blackmail. A civil war broke out in Jordan, potentially involving not only the neighboring countries, Syria and Israel, but the U.S.S.R. and the U.S. as well. President Nasser, considered a moderate by comparison with the firebrands in other Arab countries, died suddenly and left political question marks. There were reports that the Russians were building a nuclear submarine base in Cuba. Neither the North Vietnamese nor the Viet Cong showed any inclination of becoming even a little more conciliatory. And the Chileans gave a majority vote for president to an avowed Marxist. That's enough to set anyone's teeth on edge. Yet the American stock market barely shuddered. It shrugged it off.

The news at home wasn't any better. The UAW called a strike against General Motors. God only knows how long it will last, and how much damage it will cause. Business statistics are largely negative, particularly with the so-called leading indicators turning down once again. The unemployment rate rose to the highest level in seven years. Numerous major corporations warned that their third-quarter profits would be worse than had been anticipated, and the number of dividend cuts or omissions has risen to the highest level in years. Yet the general market as well as the stocks of the companies most directly affected just shrugged temporarily. By the end of that bad month of September, the S&P stock averages had advanced to new recovery highs.

Too Much Too Soon?

Is the market jumping the gun? Should stock prices go up when profits are still going down and confidence-inspiring business news is conspicuously absent? Isn't it premature for the more speculative stocks, including some of the favorites of 1968-

69, to come back so strongly and so prominently? My answer to these questions is NO.

Remember, the market began to slip last year when the economy was still expanding and corporate profits were still rising. Wall Street, in its collective wisdom, does indeed anticipate the future. The tight monetary policy of 1969 was more fearsome than almost anything else. Gross speculative excesses also had to be corrected. It is, therefore, not at all illogical for the market to change direction well before the reasons for the turn are obvious for all to see. For some months it had become increasingly evident that the Federal Reserve, now under the guidance of Arthur Burns, a most astute political economist, would use every possible means of monetary policy to prevent a snowballing of the recession. Credit is loosening up and interest rates are coming down. There will be no depression.

The excesses of the past bull market have been fully corrected, and with a vengeance. As the deflation of values took place more or less indiscriminately, it is not surprising, nor cause for concern, that some of the unduly, severely battered stocks have enjoyed a quick recovery. Furthermore, a painful short squeeze may have been responsible for some of the more spectacular advances.

I think we have sufficient evidence to conclude that the major market trend has turned up. However, just as a bear market is interrupted by occasional rallies, a bull market also has its reverses. Such setbacks should be welcomed and used to complete the reinvestment program.

Although *Westinghouse Electric's* earnings this year will fall short of earlier expectations of close to \$4 a share, which would have been an all-time record, it will still be a respectable showing for a recession year. With the utility industry in desperate need for more electric capacity, Westinghouse, as a leading manufacturer of such equipment and of nuclear power plants, can look forward to a long period of a high level of operations in these fields. As the general economy resumes its growth, other divisions, particularly consumer products, should also show good gains. The re-

Mr. Biel is a senior vice president of the New York Stock Exchange firm of Havenfield Corp.

cent sale of \$200-million debentures has greatly strengthened the balance sheet, and there should be no need for any equity financing. Westinghouse is a solid investment. It caused little sorrow even during the past decline and it should do well in the year ahead.

I am intrigued by the potentials of Phillips Petroleum, which is prominently engaged in some of the most promising oil drilling ventures in various parts of the world, particularly the North Sea. The stock at above 30 is not cheap. Many other major oil equities sell at a far lower earnings multiple than the indicated 17 to 18 for Phillips. It is probable, however, that it will show relatively greater earnings gains over the next several years than the industry as a whole. Phillips is suitable for aggressive investment where income is a secondary objective.

No Swinger But . . .

Most Wall Streeters just yawn when you mention Tenneco. It has been selling around the recent price of 20 for more than a decade, and, despite ambitious and far-reaching diversification, earnings have grown only at a snail's pace. This is not a stock for a swinger, but if an investor wants income and relative stability plus a good chance for some price appreciation, Tenneco fills the bill. The common stock sells at barely ten times estimated 1970 earnings and yields 6.6%. An even higher return can be obtained via the \$5.50 preference stock which is convertible into 3.64 common shares. At 75, this stock yields 7.3% and sells at only a slight premium above conversion parity. Its 1969 high was 115%, just about in line with the high of 31% for the common.

Few companies can boast of a better record of annual earnings and dividend increases than Winn-Dixie Stores (32), which operates a chain of some 800 food markets in Florida and other states in the South doing a sales volume of close to \$1.5 billion a year. Benefiting from the elimination of the surtax, Winn-Dixie's fiscal first-quarter earnings jumped from 41 cents to 48 cents a share, and results for the full fiscal year are almost certain to reach a new peak of around \$2.25 to \$2.30 a share. Winn-Dixie is one of the very few companies paying monthly dividends, presently 14 cents for an annual rate of \$1.68 a share. (Wm. Wrigley is another one.) Payments will probably be raised a penny a month next year, lifting the yield to 5.6%. Institutional investors don't go for Winn-Dixie, holding only 88,000 of the 12.6 million outstanding shares, but widows, orphans and other conservative investors seem to love it. ■

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STOCK TRENDS

By Myron Simons



Plain Jane Vs. Marilyn Monroe

WHICH of the two stocks below should command the highest price/earnings ratio? Logically, the answer should be Company B, of course; it has a better growth picture.

	5-Year Compounded Growth Rate	Estimated Growth for This Year
Company A	10.8%	5.6%
Company B	12.5	6.0

But that's the *wrong* answer. Company A in this case is Minnesota Mining, which recently sold at 26 times earnings. Company B is Continental Can, which sold at 12.9 times last year's earnings. In contradiction to ordinary logic, or at least to simple Aristotelian logic, the slower growing company has the bigger P/E ratio. This is not an isolated situation. It is how things work in the stock market.

Why should this be so? For the same reason that Marilyn Monroe was for so many years America's love goddess. Feature by feature, there were thousands of women who were much more beautiful. But La Monroe had sex appeal, an air of excitement. It's no accident then that we call certain stocks *glamour* stocks; like Marilyn, they excite people.

Each time the market has a terrible fall, Wall Street's sobersides predict that all this will change. That assets, stability, financial strength will henceforth be what count. That the growth stocks will lose their glamour.

It never has happened, and it won't happen this time. This year's glamour stocks may not be the same as last year's, but this year, as in every other year, some companies will have glamour and some will not.

Unrecognized Glamour

Here are some examples of how illogical the whole thing is. According to Standard & Poor's statistics, the office and business equipment group in the month of July was selling at 27.6 times forecasted 1970 earnings—which were expected to be about 4.7% higher than 1969's. Drugs, with earnings expected to be up 11.3%, were selling a little lower—at 22.4 times expected earnings. Drugs and office equipment have glamour.

Mr. Simons is a partner with the NYSE firm of F. I. duPont, Glorie Forgan & Co.

The distillers group, on the other hand, was selling at 13.5 times earnings, even though earnings were expected to be up 8.7%. Real estate companies, with earnings projected to be almost 20% ahead of last year, were selling at only 11.2 times earnings. With so large a divergence, it's easy to see that it's almost as rare for a company to escape from the characteristics of its group multiple as it was during the Middle Ages for a peasant to become a nobleman. A Plain Jane is a Plain Jane. A Marilyn Monroe is a Marilyn Monroe.

In this column, I'm going to talk about three ways to look for stocks—ways that *accept* this stock market logic.

The first is to search for stocks that sell at lower price/earnings multiples than that typical for their industry groups. Stocks with unrecognized glamour, you might say. How do you find them? By looking for companies in glamour industries selling below the group multiple. If their expectations are as good as those of other companies in the group, then they are likely to be good buys.

Richardson-Merrell in the drug group seems to fit the bill. Earnings for the coming fiscal year, which ends June 30, 1971, are expected to be \$3, up a satisfactory 11% from the \$2.70 expected but not yet reported for the year just ended June 30. The stock at 55 sells for 18 times these anticipated earnings, well below many of the other stocks in the drug group. The company sells a well-rounded line of both brand-name and ethical products, and the lower multiple does not seem warranted.

Sperry Rand is hard to put into a group because it is so widely diversified, but it has a large stake in the office equipment, electronics and computer areas. Earnings for the year to end Mar. 31, 1971 are expected to be about \$2.40. At 26, about 11 times this estimate, the stock sells well below the typical multiple for the office equipment group.

Another place to look for unrecognized glamour is in whole industries whose glamour status may be about to change. Remember, groups themselves don't always stay at the same multiples. Take the aluminums, which

once sold far above the Dow Jones industrial average multiples and now sell well below. So let's look for industrial groups that have a good chance of selling higher, and then let's find good values in that group.

Housing is such a group; it seems to hold outstanding promise right now. The Government is trying to find ways to satisfy the demand for more living space. There's little question that this is one of the most pressing domestic issues.

Sherwin-Williams is the leading paint manufacturer in the country. It will close out its August 1970 fiscal year with disappointing earnings of a little over \$2. But a pickup in sales is already in progress and the company's capital expansion program should begin to bear fruit. Earnings could recover to \$3.15-\$3.20 for fiscal 1971. The stock, at 36, could benefit from both its own turnaround in earnings and improving prospects for the housing industry.

Making a Comeback

The third plan to find unrecognized glamour is among former glamour stocks that have a good chance of making a comeback; like a movie queen who may be temporarily out of favor due to one bad picture.

Johnson Service (27½) is a leading supplier of environmental control systems for educational buildings, industrial buildings, hospitals, offices and banks. Earnings for 1970 are expected to reach the \$2 level, up from last year's \$1.87. The stock sells near the low end of its multiple range (11 times in 1966-67, when it was about to turn in lower earnings) and well below the 17 plus that it has sold at in every year of the 1960s.

The conglomerates were the belles of the ball back in 1968. In the recent bear market they were treated like old hags. They may never regain their former glory, but a few of them are pretty enough to court again. My preferences are *Gulf & Western* and *Northwest Industries*. Northwest, in particular, could be very interesting if the current plans to sell or merge its railroad division materialize.

Typically, a young bull market is a rolling affair, with wavelike movements. Stocks and groups of stocks get the center of the stage and have substantial advances; then they quiet down and even retreat, as others are discovered. Such markets offer wonderful opportunities for getting the double leverage that comes from rising earnings and rising price/earnings ratios. In my opinion, the best place to profit from all this is not among the Plain Janes but among the forgotten or not-yet discovered Marilyn Monroes. ■

THE MARKET OUTLOOK

By Sidney B. Lurie



Accent On The Positive

It's EASY to exaggerate the negative near-term implications of the General Motors shutdown and underestimate constructive long-term implications of the reduced prime lending rate.

While there is no question but that a "long" General Motors strike would have significant impact on that company and its suppliers, history indicates that its overall impact will be minimal. Although automobile output declined some 50% and 20% respectively during the 1964 and 1967 production disruptions, the nation's total industrial production declined only modestly. Matter of fact, disposable income and personal consumption expenditures increased steadily during those years. Thus, while it's basically true that a major work stoppage is like a mini recession, the broad diversification of the economy provides counterbalancing influence.

Similarly, there is little question but that the cut in the prime lending rate charged by banks has only an indirect connection with the interest rates charged small businesses, home buyers and consumers. But the very fact that money is now less expensive and more readily available will fuel the business upturn which I believe started during the summer months. It's an important part, for example, of the more favorable climate that should lead to a major upturn in residential building activity next year. Further, by in effect putting the lid on the late spring fears of a liquidity crisis, it strengthens the background behind the revival in consumer confidence.

Just as it takes an interplay of forces to make the over-all economic environment, so an interplay of forces is always evident within the marketplace. For example, although the aluminum industry currently represents what might be termed a problem area, all of the companies in the energy business enjoy an extremely favorable supply-demand outlook. It's my understanding that the natural gas pipeline transmission companies aren't taking additional customers, and distributors in some cases have been forced to ration supplies. While the full weight of the problem brought about by increasing demand and limited supplies may

not be witnessed until next winter, there is currently one overriding consideration: Previous rate-of-return ceilings have been lifted and there is a new and more liberal regulatory environment. My particular favorite is *Texas Eastern Transmission* (around 37, paying \$1.40), a company which provides energy in several forms to most of the major consuming areas of the country, and has extensive interests in several foreign countries.

Bright Future

In Europe, the tight oil supply-demand situation which has resulted in sharply higher product prices than a year ago stems from one underlying consideration: Energy demand has increased faster than expected in the past few years, with the result that previously excess refining capacity has been practically all absorbed. Thus, even if the recent interruptions to oil supplies which aggravated this basically tight situation are removed, product prices should remain high. All of which points up the particularly bright outlook for the international oil companies, of which *Royal Dutch Petroleum* (around 47, paying \$1.91) is the largest. The company is obtaining an increasing percentage of crude oil needs from its own fields, and also has a fast-growing natural gas business which (with partners) accounted for 46% of industry sales in Europe last year. I expect this year's earnings to be about 5% better than the \$4.24 a share reported in 1969 (an all-time record) and foresee further improvement in 1971.

While there are aspects to the market's internal mechanics which suggest some misgivings, reassuring facts remain: 1) If the price structure had been truly vulnerable, the impact of the Middle East crisis would have been much more unsettling. 2) The still large reservoirs of idle cash in professional investment hands represent a bulwark and reservoir of potential demand. 3) There is no direct correlation between business and market trends when cycles are changing. Thus, I believe the price bias remains upward, that reactions will tend to be short-lived, that this is the time for interest in the stocks with a special story for 1970 and later. ■



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MARKET TRENDS

By Martin T. Sosnoff



Everything You Always Wanted To Know About Human Speculative Inadequacy

Occasional guest columnist Martin Sosnoff in our July 1 issue spoke of the new mood of sobriety on Wall Street and asked: "When does the next show start?" Below he answers his own question. His answer: The new wave of speculation is under way.

I HAVE a big spooky concept that everyone knows but is afraid to mention. Now is the time to speculate. I can feel it in the air. Every morning at ten the animals are exploding out of their cages and they are dancing like crazy again on the ticker tape. Maybe it won't last, but I hear the music and it is telling me to dance too.

The time is now because anyone who has overspeculated in the last few years has been discredited or destroyed. Nobody has much appetite left for speculation, so there is little competition. The situation is like the anarchy of the jungle where the death rate of young lions comes from their conflict with the older power-hungry lions and lionesses.

In the stock market, the irresponsible commitment of buying power has been a natural outcome of competition by the money managers who tried to bloat themselves with assets by outperforming the world. But dominance is a power that easily gets out of hand and the prides of super-performing money managers became self-defeating as they stretched their territories to the unfounded and esoteric ranges of speculative goods. What happened was simply that their portfolios outran their comprehension factor. They forgot that one must speculate from facts, and they lost control and couldn't unravel the stories as fast as they fell apart.

Cure for Overspeculation

To be sure, there were many angelized lions in white shirts. (You find them at mahogany desks in edifices with Corinthian columns.) They probably believed in America. That its fastest growing companies would always run the four-minute mile. Actually, this breed was victimized by the communications explosion. Everyone grew too many buttons on their

phones and when the lights lit up, they accepted the messages with the greatest promises. This worked beautifully when the business cycle ran and ran. Then you didn't even need a money manager. An answering service could have taken the messages and the next morning you would have bought the sexiest stories and watched them unfold.

Here is a sample cure for overspeculation. Each and every investment manager must put every cent he has in the fund he manages. Additionally, his company would force him to leverage his capital at least 400% or up to a \$1-million commitment through a loan. It would be interesting then to see how many funds would be down 25% to 50% in a bear cycle. As soon as the fund manager was wiped out he would be shifted to a McDonald's hamburger stand where he would remain in bonded service for at least 20 years or until he paid off the loan. I think these arrangements should be made with McDonald's by the regional security analysts' societies. If nothing else, analysts would learn something about running a business. Besides, the french fries are a work of art.

I am going for the jugular of the composite money manager, because even if he is right, there is not too much money to be made his way. The coalescence of investment thinking into a pride, and in fact a super-pride, of concepts and prejudices becomes a self-destructive force where the conditioned response is overdone. Today, for example, Wall Street, pushed by its coterie of fee-conscious consulting economists, is stroking the throat of the consumer to bail us out of the recession. A Utopia of 50 million prodigal sons is right around the corner. Everyone will be buying new homes and cars and any girl over 13 will have a closet filled with midis, maxis and minis.

The chances are they will be wrong for next year, at least. All you have to do is talk to anyone who is on salary. For the first time in ten years, labor understands what it is to feel insecure. Pan Am is laying off senior pilots, and executive secretaries are going to work in pants suits, not midis. Nobody talks about the teach-

er shortage anymore, because all the Ph.D.s who fed at the research-and-development trough are now lining up to teach arithmetic at the little red schoolhouse.

What is there to do? You can, for example, buy a technological harem for 15 times earnings instead of 40 times earnings, if that is your pleasure. It is an easy role to play. If you are a junk peddler like me, and look for companies selling below book value that have promise, there are garage sales all over the place.

Up 50%

Insurance companies with billion-dollar-asset bases are ignored despite sizable premium-rate increases in the works. Airlines with billion-dollar-revenue bases are selling under book because everyone thinks they are near bankruptcy. Many of the broadcasters and even a few film companies have our attention recently, because all the research analysts hate them, and they are selling at one-third what they went for two years ago. If we are right about the market being in the early stages of speculative pollution, these stocks will go up 50% before anyone can even rationalize the move.

The field today is not for the boys with the foot-long slide rules who play the relative value game. The market is made for the dreamer who can think alone in his cork-walled room away from the conditioned crowd response that has painted the consumer black and white. The market is made for the money manager who can develop a fresh point of view toward some big capitalization stocks or toward an industry where he can put a lot of money to work.

Let me offer some examples and raise questions that should be asked. Wall Street has always been skittish of regulated industries where the rate of return is in question. But Nixon's commissioners seem more concerned with profits than most managements. Airline rate increases are a foregone conclusion in 1971 and natural gas producers have a scarce commodity that's getting the price rise it deserves.

Donald Cook of American Electric Power can scream about coal prices all he wants, but the prices aren't going to come down. In fact, they are going up and up. Where was he when the coal operators crawled into his office on their knees and begged for long-term contracts rather than the spot business given them? There is a worldwide British Thermal Units (BTU) crisis and coal is going to be scarce for the foreseeable future. The fears of price regulation or strong export control for coal are going to prove unfounded and those stocks are

A guest columnist, Mr. Sosnoff is a general partner of Atlanta Partners, New York.

**John Blake thought
safety belts were
a drag.**



What's your excuse?



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going to get the multiples they deserve. Metallurgical grade coal is going to be scarcer and more precious than uranium unless there is a worldwide depression during the next five years. It is going to pull residual oil prices along with it and anything else connected with meeting the worldwide BTU shortage.

Oil analysts hate prosperity. Every time prices improve they shake their heads and call it an aberration. But the aberration of higher tanker rates may last for years and become a way of life. Anyone with tanker capacity coming on stream the next few years has swallowed a canary that could make him sing forever. Meanwhile, the European refineries burdened with overcapacity a few years ago are running full as the consumption rate abroad appears to have been underestimated.

We should stop for a minute and reflect that almost all the acquisition-oriented managements turned out to be complete busts in the Sixties, leveraging their balance sheets and overpaying for companies they couldn't upgrade. Some of them almost bankrupted themselves doing this and they are now shedding unproductive assets wherever they can. For the company with a clean balance sheet, now is the time to buy cheap.

The New Leaders

There are some very stodgy companies around that may have greatness thrust upon them, because they are the only ones left with cash. Conversely, the most sterile thing to do with money now is to invest it in well-managed companies that are leaders in their fields and have enjoyed very fancy profit margins during this cycle. These companies have nowhere to go: They can continue to grow as they have or they can disappoint you, but they cannot surprise on the up side.

The next cycle belongs to the underachiever of the past cycle, for the industry that had its profit margins collapse may come back. Managements who were more concerned with share of market than profits in the Sixties have been fired. Stocks that are selling like old shoes may be the concept stocks of the Seventies, if only because their profit margins are way below trend. All you have to do is ask some simple questions. Is the collective wisdom of The Street adumbrating good or bad vibrations towards these properties? Is what everyone likes now worth buying? If not, *everything else* should be studied with care.

After all, the stock market is waiting for you to prove what kind of a lion you are. By now, Pussycat, you should know. ■

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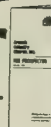
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WALL STREET VIEW

By Walter Mintz



Questions For 1971

ONE OF THE many Wall Street shibboleths that has died a horrible death is the notion that inflation is good for stocks. Far from being good for stocks, inflation was the underlying cause of the 1969-70 debacle, and the market did not regain its footing until there was a widespread conviction that inflation would at least be temporarily slowed. This behavior of the market is consistent with past performance both here and abroad. At least in the years following World War II, strong inflation has generally led to weak stock markets. The record shows that stock markets usually perform best when inflation is held to modest proportions. Stocks have been a good inflation hedge when held for a period of many years, but in the shorter term, accelerated inflation has proved dangerous to the market.

Accordingly, one of the most critical questions confronting the market now is this: Is the recent decline in the rate of inflation merely a lull that will last only about as long as business conditions are slack, or can we look forward to a protracted period of normal economic growth unaccompanied by sharp increases in the prices of goods and services?

Since economists on Wall Street and in Washington have had little success in making accurate precise forecasts recently, I believe that firm projections of price movements in 1971 should be regarded with skepticism. As against the euphoric atmosphere which has recently prevailed in Wall Street, the possibility of an early revival of strong inflation is worth considering. For if inflation speeds up again, the stock market could disappoint the euphoric bulls.

Prices on the Rise Again

This is particularly true since there is no clear evidence that the rate of wage increases is slowing down. Transportation, energy and fuel costs are almost bound to rise in the months ahead. There are also good grounds for expecting important price increases in the chemical, paper and other industries where the rate of capacity expansion is likely to be slower than increases in demand. Excessive

optimism by businessmen, which helped to fuel the inflation of the last few years, has been dampened. But the optimism still lurks just below the surface. It may not take much of an improvement in business conditions to revive inflationary expectations in corporate boardrooms.

In short, it is at least conceivable that after a few months of industrial recovery (which is getting under way now) we may again witness rapid price increases. There would quickly follow credit stringency, a reversal of the current downtrend of the interest rates and a subnormal rate of economic growth. Moreover, there is also a good chance that this country's balance-of-payment problems may get worse, and this too could lead to greater credit restraints.

To be sure, it seems unlikely that Federal Reserve policy will be as restrictive next year as it was in early 1970. Still, it may be severe enough to invalidate the optimistic projections of the more exuberant bulls. Washington's economic policy makers are not likely to be reluctant to restrain inflation in 1971 if that turns out to be necessary in order to lay the groundwork for full-fledged prosperity in 1972. The latter, being a Presidential year, is more important to the party in power than 1971 with no national or statewide elections.

We will have a clearer idea of how these forces will work out once the business recovery has been under way for a little while. In the meantime, investors would do well to operate on the assumption that corporate profits next year will be good enough to prevent another serious decline in the market, but—and this is a big but—neither profits nor monetary conditions will be so favorable as to justify a big improvement in the price/earnings ratio of the average stock. Furthermore, for the time being, it seems reasonable to assume that we will have a much more selective market in the months ahead than we did in the first nine months of 1970, when just about every issue went down until May, and almost everything went up thereafter.

As a very general rule, the issues that are likely to be among the best performers in the months ahead are those now selling at low multiples of

conservatively estimated 1971 earnings. More specifically, the consumer goods and retailing sectors of the market offer many attractive opportunities. With incomes continuing to rise and savings abnormally high, the outlook for consumer spending in 1971 is promising. Meanwhile, many of the stocks of consumer-goods manufacturers and store chains are selling low multiples of the earnings that can reasonably be expected next year. Indeed some of these stocks are selling at very low prices in relation to next year's profits.

For example, despite depressed conditions in the textile and apparel industries, a number of soft-goods companies have managed to maintain or increase their earnings in 1970 and are well positioned to score substantial earnings gains next year. Yet some of these issues are selling at ten times or less conservatively estimated 1971 results. Similarly low multiples are available in the oil group, where prospects for higher product prices and promising exploratory activities have not yet been discounted in market cases. And the troublesome fuel shortage may continue to drive shares of coal producers higher.

As indicated above, there is a good chance of price increases and better plant utilization in the paper and chemical industries permitting earnings to show sharp gains next year. And, of course, there are companies in many other industries where a recession has brought about substantial cost-cutting drives, construction management changes and other internal improvements which have not yet been reflected in the market.

A Risky Bet

On the negative side, excess capacity problems may continue to plague the aluminum stocks. Demand for industrial machinery will probably remain sluggish next year. Many of the "high technology" stocks have been moved out of a buying range by recent speculative exuberance and frantic short covering.

Finally, there are even grounds for questioning the enthusiasm for some of the building stocks, which recently have been quoted at generous multiples of near-term earnings prospects. If the fears of renewed inflation and credit restraints expressed at the beginning of this column turn out to be valid, the rate of housing starts next year may not show as great an increase over this year as is now expected in some quarters.

To sum up: Betting on a fairly stable market makes sense right now, but betting on a major bull market seems pretty risky at the moment. ■

A guest columnist, Mr. Mintz is a partner of Cumberland Associates, New York, N.Y.

The Funds

Funds? Needed More Than Ever!

LAST SPRING Milton Mound, head of First Multifund of America, telephoned to find out why the Johnston Mutual Fund had returned Multifund's \$500,000 check uncashed. Instead, he found out the difference between a go-go fund and an old-line mutual fund with long-run policies.

Last November Multifund had invested \$1 million in Johnston when the rest of the market had withered and Johnston's growth stocks had held up. Then growth stocks began to slide, and about May Multifund took back its \$1 million. Now, in June, Multifund wanted to reinvest half that amount.

"Multifund was shocked when we turned down their money, but we told them we only wanted long-term investors," says Johnston's president and chief executive, William I. LaTourette. "We don't permit anyone to trade our fund. For instance, a European fund from Liechtenstein sent us a check for \$1 million. I was so happy I put it over the fireplace in my home. A few weeks later they took it back. I went home and threw the check into the fire. We don't want those kinds of investors. We'd have to keep higher cash reserves just for them."

So in hard dollar terms, 42-year-old Bill LaTourette has proved he subscribes to the philosophy of M. Jennings von der Heyde, Johnston's 64-year-old chairman and founder of the fund. "I wouldn't consider tinkering with Jenn's sound, solid approach," LaTourette says. "It should be followed by most people. Jennings created a simple, clean vehicle which concentrates on growth stocks to offset inflation."

The only approach? Not at all. A prestigious young gunslinger at the height of his powers tried to take over Johnston a while back. "I was impressed by his record," says von der Heyde, "until I asked myself if I could expect anyone to maintain that kind of record in the future."

Still, selling out was the only way von der Heyde and his partners could capitalize on their decades in money management, and so Douglas T. Johnston & Co. became part of the Boston Co. in 1967. Boston promised not to change von der Heyde's investment approach. They *did* put in their own fund boss, La-

Tourette. But they also gave von der Heyde a five-year full-time contract and a five-year part-time contract to follow.

In 1968 when speculative go-go funds like Enterprise soared way past Johnston in performance, von der Heyde was "scared to death someone in the Boston Co. would put pressure on us to change. But they didn't say a word. Though we differ on many individual stocks, LaTourette turned out to have the same philosophy I do." Johnston, with assets of \$140 million the seventh-largest no-load, typifies the many funds that served their shareholders well by keeping to their original principles.

"We have just been through a speculative orgy," says von der Heyde. He feels the Securities & Exchange Commission should never have let funds buy letter stock, use leverage, sell short, speculate in commodities or charge performance fees. "I hope all these gamey practices haven't given the industry too much of a black eye. Now that the funds no longer are some kind of national lottery, I am convinced more than ever of the need for well-managed mutual funds."

Von der Heyde claims the fund's original goals are still valid. Mutual funds can offset the effects of inflation and help the small investor prepare for the education of his children, retirement or other long-run goals. "Inflation is increasing, not decreasing, and the small investor lacks the sophistication and capital to accomplish his goals by himself."

A no-load pioneer, von der Heyde claims to have been investing in growth stocks as long as T. Rowe Price, who first used the growth-stock label. Each day on the train to work he notes in a little black book how his fund compares with T. Rowe Price; and he determines whether Johnson has a good or a bad year by how Johnston did against its Baltimore rival.

In the most recent FORBES Mutual Fund survey, both Johnston and T. Rowe Price Growth ranked B in up and down markets. Johnston leads a bit in one category, lags a shade in another. Over the longer run, T. Rowe Price leads. Von der Heyde set Johnston up as a balanced fund because he was certain



LaTourette of Johnston

a depression would follow World War II, as it had every other major war. So Johnston held bonds and growth stocks until 1964 when it became a common stock fund.

Looking ahead, von der Heyde agrees with Price on the certainty of further inflation and that growth stocks are the small investor's answer. But he disagrees with Price that natural-resource companies are good hedges. Says he: "Timber, paper, metals haven't acted as an inflation hedge in the past. They are all commodity businesses which periodically move into excess supply and erode prices and profits."

What kind of growth stocks will provide a hedge? Well-financed companies with able managements in growth fields, like Emery Air Freight, for instance. He would still include giants like IBM and Kodak, and his fund's three best investments, Avon, Xerox and Baxter Laboratories. But he turns away from old friends. "I wouldn't call Polaroid a growth stock anymore. Everything Dr. Land set out to accomplish, except the vest-pocket camera, has been accomplished, and he is no longer a very young man."

In the future Johnston's performance will depend primarily on President Bill LaTourette. LaTourette may see eye to eye with von der Heyde on stocks like Walt Disney and Tampax. But his belief in riding his winnings and cutting his losses quickly raised the fund's turnover from 24% to almost 40%.

LaTourette has put a small part of the fund into seed investments



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The Funds

like Sternco Industries (goldfish and hobbies) and Wallace Business Forms. He also puts more stress on cyclical turnarounds like Ford Motor. "In a good automotive year, Ford can earn \$7 to \$8 a share and sell at ten times earnings, so at \$49 it looked cheap."

But LaTourette's real test will come in picking growth stocks. With so many institutions looking for them, their prices gyrate wildly,

and knowing whether a stock is overpriced or underpriced will certainly become an art. But at least, LaTourette says, the fund will stay away from speculative practices, and, if he sticks to it, long-run holders of Johnston should do well. The same is true of holders of most other conservative mutual funds. In this field there is no way for the small investor to get rich quick and stay that way.

"Deliver Me The Body"

LEONARD MARX has no interest in big-game hunting, and consequently has no trophy room in his spacious colonial home in suburban Westchester County, N.Y. But if there were, it should contain a new and unusual trophy. For early this month Marx killed a merger, the proposed acquisition by Boston mutual fund distributor and adviser Vance, Sanders & Co. of the management company for Dun & Bradstreet's Moody's Investors Services.

Marx, 66, had fought the merger tooth and nail ever since it had first been proposed last summer, spending some \$20,000 of his own money in the process. (Fortunately, as a well-to-do real estate man specializing in developing land for supermarkets and shopping centers, he had to spend.) First he waged a proxy fight against the acquisition among the holders of Moody's Capital Fund shares, since they must approve any change of management company. He forced postponement of the annual meeting and brought a lawsuit against Dun & Bradstreet, but finally lost the proxy fight in a very close vote. Then the two principals in the merger announced, with no explanation, that the merger agreement had been terminated.

Marx claims he is fighting for a question of principle—the principle that mutual fund management and distribution companies should not be bought and sold at prices implying that they virtually own the mutual fund that pays them. The Investment Company Act of 1940 specifies that any agreement between a mutual fund—which is owned by its shareholders—and its distributors and investment counsel must be cancellable within 60 days. This suggests, Marx argues, that such a short-term agreement must

be essentially without monetary value. So if Dun & Bradstreet is going out of the fund business, then the fund's own directors should simply hire someone else to manage it—not permit the management company to be sold to someone else.

He concedes that D&B was merely following common practice by trying to sell the management company to Vance, Sanders. After all, D&B had laid out over \$3 million in buying it from Lazard Frères. But Marx insists that the whole system of transferring management companies is immoral: "The current situation puts [mutual fund] shareholders in the position of a steel consumer whose directors are appointed by U.S. Steel," he argues emphatically.

This is not the first time that Marx has driven a point of principle into the ground. About seven years ago Meshulam Riklis tried to sell McCrory's most valuable asset, Lerner Stores. Marx waged a successful proxy fight to prevent the sale.

Marx, of course, prides himself on having constructive ideas rather than merely another case of what his wife calls "the seven-year itch." Says he, "Let me tell you how I wish the mutual fund business could be run. My wife's uncle died, and though I had never met him, she told me I was paying for the funeral. I went to the undertaker, and he told me there was no possible way he could cover costs and charge less than \$1,800. 'Deliver me the body,' I told him. Would you believe that undertaker gave my wife's uncle the best funeral in the world for \$500?"

"Now, when some fund manager wants to quit the fund business, fine. But I want the fund shareholders and their directors to say, 'Deliver us the fund.'"

READERS SAY

(Continued from page 15)

and exciting and above all fashionable. Why the myopic apparel producer who forgets that the only thing which is permanent is change. Let's have less nonsense in the future about consumer revolt. It is the figment of a totally uninspired imagination.

—GERALD E. MARCUS
New Haven, Conn.

SIR: "Will the Ladies Buy It?" No. I took a survey within the company, as well as among a number of friends of mine, and Southern California ladies are decidedly non-midi. I guarantee that Southern California men feel precisely the same way.

—JAMES K. SWEENEY
President,
Computer Machinery Corp.
Los Angeles, Calif.

SIR: The secretaries of America humbly salute you with a standing ovation. Your prestigious magazine has transfused us with renewed courage in barricading against the forceful tide of the designers' hemline whims.

—VIRGINIA TATUM
Nashville, Tenn.

SIR: I propose this compromise to end the sororocidal war about the hemline: The minidress for the girls with the maxi legs and the maxidress for the girls with the mini legs.

—FRANCIS D. CABOUR
Boston, Mass.

SIR: If you must use an old movie still of a German star to illustrate a granddaddy of the current styles, why not show grandmama Marlene in a long trench and trousers so the ladies could be reminded of how sexy, feminine and glamorous the covered-knee look can be?

—MRS. EDWARD C. SOLOMON
New York, N.Y.

SIR: ... Nol

—MRS. HARRY W. MOORE
(Plus 22 Other Signatures)
Los Angeles, Calif.

Not of the People

SIR: Your traveler's similes, particularly "as rare as cordiality in France" (*Fact & Comment, Sept. 1*), prompts observation that friendliness begets friendliness, and that it is governments which fight, not people.

—D.C. BONDURANT
Omaha, Neb.

From Cleveland to L.A.

SIR: Dan Reeves may have paid \$100,000 for the Rams in 1941, but at that time they were the Cleveland Rams and not the Los Angeles Rams as the article stated (*FORBES Sept. 15*). The Rams were moved to Los Angeles for the 1946

season after the owners took a financial bath in a snowstorm during the 1945 championship game played in Cleveland Stadium.

—ROBERT A. HYDE
Anderson, Ind.

Surprise!

SIR: I was surprised to find the investment tax credit listed as an important factor of bank aircraft leasing in your Aug. 15 article on "The Jet-Propelled Bankers." It was an extremely attractive feature of such leases until it was eliminated in 1969.

—A.D. WEYLAND
Houston, Tex.

Reader Weyland is correct; the investment tax credit was eliminated in 1969. However, this was to apply to equipment ordered after Apr. 18, 1969. All aircraft now being received and all airbuses ordered to date by the major airlines were ordered before then, so are still eligible for the investment tax credit—Ed.

SIR: There were two statements in the article confusing cash flow with earnings. First, accelerated depreciation adds to cash flow, not earnings. Second, the cash flow in the first year of the lease provides a 56% return of investment to the bank rather than on investment as reported in the article. Just as the repayment of principal in a loan is a cash flow which does not constitute earnings or return on investment but repayment of investment, cash flow from a lease must provide for the recovery of principal as well as earnings. The effect of this confusion in the article is to overstate dramatically the bank's earnings and return on investment.

—ANTHONY P. NICHOLAS
Vice President,
First National City Bank
New York, N.Y.

Someone Else Was First

SIR: The sensible idea of one-way toll collecting deserves the praise you give it in your Sept. 15 "Fact & Comment," but you are behind times when you attribute its origin to a San Franciscan. They have been doing this for years up in Nova Scotia—for the crossing of the Canso Causeway to Cape Breton.

—C.W. JEFFERS
Farmville, Va.

SIR: One of the recently reported benefits of the one-way bridge toll collection on the San Francisco-Oakland Bay Bridge is a 50% reduction in the accidents taking place at the toll plaza.

—ROBERT KAHN
Lafayette, Calif.

SIR: You credit San Francisco with a "brilliant idea." Forget it! For many, many years they have been collecting tolls one way on the Rickenbacker Causeway from Miami to Key Biscayne. One more plus for Florida over California.

—ERNEST C. LEONARD
Miami, Fla.

LEGAL NOTICE

STATEMENT OF OWNERSHIP, MANAGEMENT AND CIRCULATION (Act of October 23, 1962; Section 4369, Title 39; United States Code)

1. Date of filing: October 1, 1970.
2. Title of publication: FORBES.
3. Frequency of Issue: Semimonthly.
4. Location of known office of publication: 60 Fifth Avenue, New York, New York 10011.
5. Location of the headquarters or general business offices of the publishers: 60 Fifth Avenue, New York, New York 10011.
6. Names and addresses of Publisher, Editor and Managing Editor: Publisher: James J. Dunn, 60 Fifth Avenue, New York, New York 10011. Editor: James W. Michaelis, 60 Fifth Avenue, New York, New York 10011; Managing Editor: None.
7. Owner: Malcolm S. Forbes, 60 Fifth Avenue, New York, New York 10011.
8. Known bondholders, mortgages, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages, or other securities: None.
9. For completion by nonprofit organizations authorized to mail at special rates: Not Applicable.
10. Extent and Nature of Circulation:

	Average No. Copies Each Issue During Preceding 12 Months	Single Issue Nearest To Filing Date
A. Total No. Copies Printed (Net Press Run)	682,375	684,000
B. Paid Circulation		
1. Sales through dealers and carriers, street vendors and counter sales	17,153	15,050
2. Mail subscriptions	604,882	611,976
C. Total Paid Circulation	622,035	627,026
D. Free Distribution (including samples) by mail, carrier or other means	29,468	33,793
E. Total Distribution (Sum of C and D)	651,503	660,819
F. Office use, Left-over, Unaccounted, Spoiled after printing	30,872	23,181
G. Total (sum of E & F—should equal net press run shown in A)	682,375	684,000
I certify that the statements made by me above are correct and complete.		

LEONARD H. YABLON
Adm. Vice Pres.

Pennzoil United

DIVIDEND NOTICE

The following dividends have been declared:

20¢ per share on the Common Stock of the Company payable December 15, 1970 to stockholders of record at the close of business on November 30, 1970.

33⅓¢ per share on the \$1.33⅓ Cumulative Preference Common Stock of the Company payable on January 1, 1971 to stockholders of record at the close of business on November 30, 1970.

39⅓¢ per share on the \$1.58⅓ Cumulative Preference Common Stock of the Company payable on January 1, 1971 to stockholders of record at the close of business on November 30, 1970.

R. B. BERRYMAN
Corporate Secretary

October 5, 1970

Pennzoil United, Inc.
900 Southwest Tower
Houston, Texas 77002

This may be your last chance to get up off your big fat complacency.

Maybe you've heard this before. But think it over for a moment, anyhow.

You're probably just as worried as everyone else about what's happening here in town. And you feel frustrated, because you don't know what you can do to help.

Try this. Pick out one of our United Way agencies. Go to it. Go out into the field with its workers. See for yourself the very real needs of the people it serves. The new and growing urgency of their problems.

Take a good hard look at the new things that the agency is doing to solve these problems. The new approaches. The new programs. The new money they take.

Then, when you pledge your Fair Share, you're bound to make it bigger. You will remember the faces and voices of those you are helping. You will know what must be done.



If you don't do it, it won't get done.

advertising contributed
for the public good



Trends & Tangents

(Continued from page 10)

lem has spawned its own solution, however. For \$5 a head (paid by the company) if they succeed and nothing if they fail, New York-headquartered Shareholder Search Corp. will look for the missing shareholder. The service was first begun for the U.S., but has been expanded to cover Canada, Europe and South America as well.

New Pitch

Faced with having to introduce five new building products recently, National Gypsum came up with a novel promotion in the form of a cassette tape individually recorded for each architect, publisher or other recipient. To make sure the tape got played, it was sent in a tape player that the recipient was welcome to keep. And to give him something else to do while he was listening, a sampling of gourmet foods went along, topped with a small bottle of champagne.

Stop Action

"It's almost like putting a still camera inside a motion picture camera," said a company spokesman describing RCA's new television camera tube with built-in stop action. The small vidicon-type device can take stills of the continuous action being transmitted by the camera, store the still shots and transmit them later. The still pictures can also be stored internally for several days, eliminating the need for another storage medium. The silicon storage vidicon, as it is called, may be used to guard banks. Current TV surveillance systems often can't take a clear picture of a moving thief.

New Train Board

Instead of plain old signs, San Francisco's Bay Area Rapid Transit (BART) will use a computerized passenger information display system to announce train destinations, operating conditions, schedule changes, weather reports and news and sports messages. Besides offering train information (in more than one language where necessary), the 276 electronic signs also provide a new advertising medium; most of the \$5 million cost will come from ad revenues. ■

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THOUGHTS... ON THE BUSINESS OF LIFE

It cannot be denied that outward accidents conduce much fortune, but chiefly, the mold of a man's fortune is in his hands.
—FRANCIS BACON

I have not observed men's honesty to increase with their riches.
—THOMAS JEFFERSON

A man who is furnished with arguments from the mint will convince his antagonist much sooner than one who draws them from reason and philosophy.
—JOSEPH ADDISON

Law is but a heathen word for power.
—DANIEL DEFOE

High descent and meritorious deeds, unless united to wealth, are as useless as seaweed.
—HORACE

The purpose of law is to prevent the strong always having their way.
—OVID

Wealth may be an excellent thing, for it means power, leisure and liberty.
—JAMES RUSSELL LOWELL

He who has the judge for his father goes into court with an easy mind.
—MIGUEL DE CERVANTES

If one starts with the notion that anything a man does which gives him pleasure is probably sinful, it is only one step to think it is harmful and the next thing to do is to pass a law against it.
—WILLIAM B. OBER

If you have ten thousand regulations you destroy all respect for the law.
—WINSTON CHURCHILL

The sweet calm sunshine of October, now warms the low spot; upon its grassy mold the purple oak-leaf falls; the birchen bough drops its bright spoil like arrow-heads of gold.
—WILLIAM CULLEN BRYANT

To heal the breach between the rich and the poor, it is necessary to distinguish between justice and charity.
—POPE PIUS X

B. C. FORBES

Justice must be blind to the hardness or softness of a man's hands, as well as to the leanness or fatness of his pocketbook.

If mankind does not relinquish at once, and forever, its vain, mad and fatal dream of justice, the world will lapse into barbarism.
—GEORGE MOORE

The exact contrary of what is generally believed is often the truth.
—JEAN DE LA BRUYÈRE

The usual choice is not between the good and the bad but between the bad and the worse.
—FRENCH PROVERB

Justice: A decision in your favor.
—HARRY KAUFMAN

The law, in its majestic equality, forbids all men to sleep under bridges, to beg in the streets and to steal bread—the rich as well as the poor.
—ANATOLE FRANCE

The aim of justice is to give everyone his due.
—CICERO

Men are entitled to equal rights—but to equal rights to unequal things.
—CHARLES JAMES FOX

We do not judge men by what they are in themselves, but by what they are relatively to us.
—ANNE SWETCHINE

There can never be human happiness in a society that imposes a rule of "equality" which disregards merit and rewards incompetence.
—DAVID LAWRENCE

Use every man after his desert, and who should escape whipping?
—SHAKESPEARE

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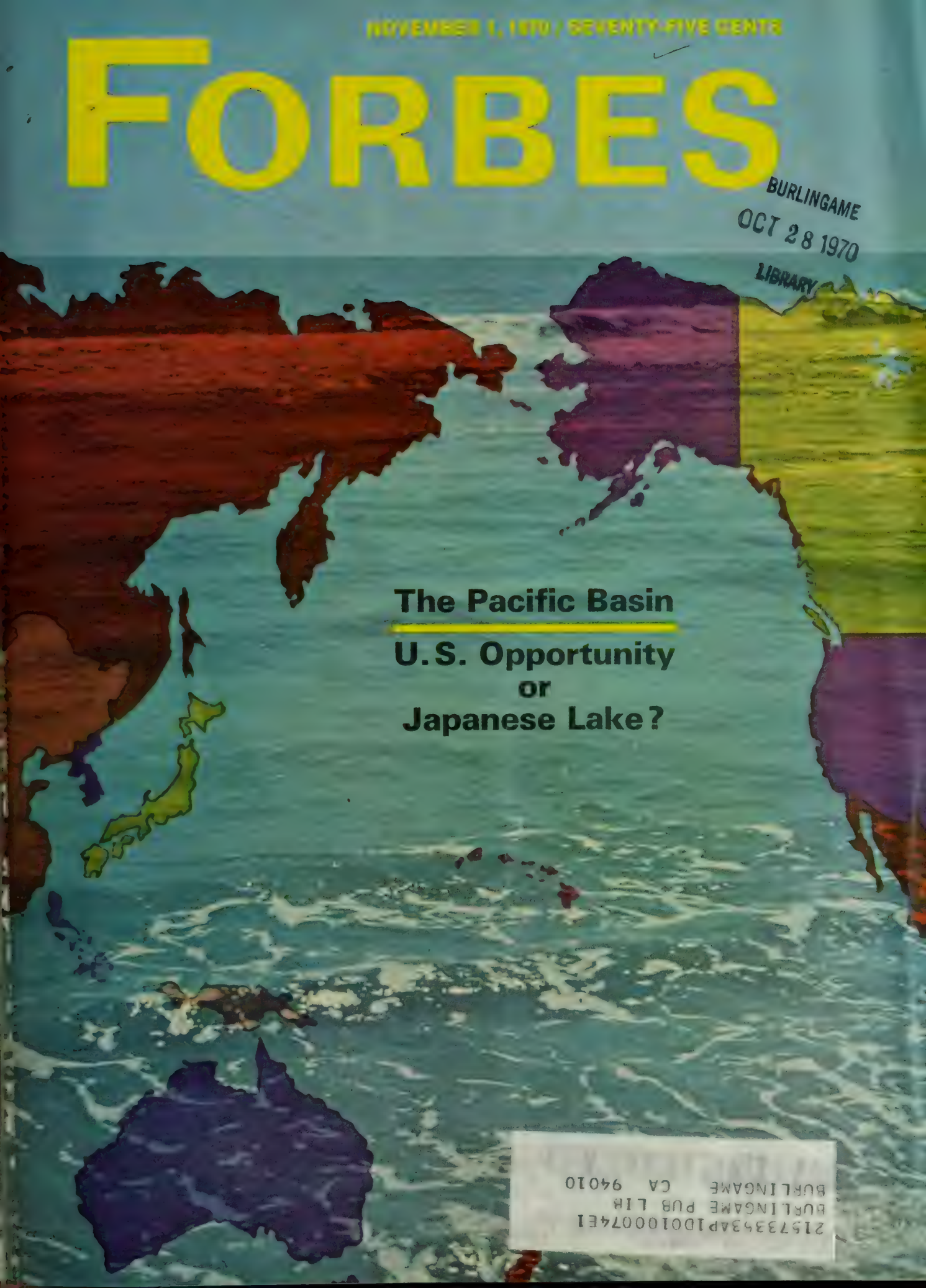
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Let us choose to us judgment: let us know among ourselves what is good.
—JOB 34:4

NOVEMBER 1, 1970 / SEVENTY-FIVE CENTS

FORBES

BURLINGAME
OCT 28 1970
LIBRARY



The Pacific Basin U.S. Opportunity or Japanese Lake?

21573353AP1D0100074E1
BURLINGAME PUB LIB
BURLINGAME CA 94010



Jingle Bells

J&B Rare pours more pleasure.

Out of the mouths of babes comes a lot of nonsense—and worse

When a ten-year-old child is put on national television to pontificate, "The State is too lenient with the large corporations", then something very silly, sick and sickening is happening to this country of ours.

It is all part of a "revolution", if you please — screaming hordes disrupting courts of law, loudly threatening to "seize power through the barrel of a gun", vandalizing offices of companies vital to the safety and economy of the nation, burning banks, closing colleges and so destroying the chance of decent young Americans to get the education they want

and know how to appreciate.

There have been 600 riots in this country in the past five years, and 470 in less than two years on campuses. Every riot and violent protest destroys a little more of your country, your freedom, your savings — and delights this country's enemies. As the Vice President asked, "Will the Government of this country remain in the hands of its elected officials, or will it descend to the streets?" The answer is up to you, because it is *your* Government. Isn't it time the Silent Majority stopped being silent?



New generation turret lathes, like this numerically controlled SC-28, bring automation to short run work.



THE WARNER & SWASEY COMPANY
Corporate Offices
11000 Cedar Avenue
Cleveland, Ohio 44106

The amount of money you're spending in voice and data communications might be better spent.

Today, communications is a whole new ball game.

Regulatory changes make it possible for a company to take maximum advantage of the most sophisticated, commercially available data and voice communications equipment and interconnect with the nation's telephone system.

And this is what United Business Communications is all about.

Although we opened our doors for business in January, 1970, United Business Communications was actually born two years earlier when we set out to build an alert, fast-moving organization offering our customers a *total* communications capability from one single source.

Born to help you get the utmost economy and efficiency in your communications system.

Behind us is our parent corporation, United Utilities, Incorporated, a billion dollar plus corporation whose properties are almost entirely communications oriented, and who operate the nation's third largest telephone system.

Our people—a select, painstakingly handpicked group—have a remarkable background in design

and application of voice and data communications systems.

Supporting UBC are communication equipment manufacturers that date back more than 80 years.

North Electric, one of the nation's original manufacturers of telecommunications equipment, supplies our customers with an advanced line of quality PBX systems.

Expanding our PBX line is Fujitsu, a major Japanese manufacturer known the world over for its communication equipment.

Rixon Electronics supplies data transmission expertise and equipment like data sets and multiplexers.

Rounding out our product line is GDI, Inc., supplying computer and terminal peripheral equipment including card readers, card punches and card transmitters.

Total communications in one company, UBC.

With sales and service offices in principal U.S. cities, Canada and Europe.

Backed-up by in-depth systems and application engineering support.

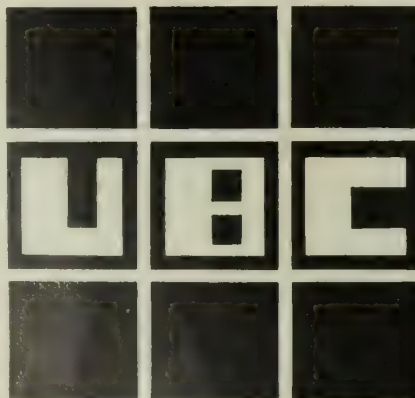
And expert installation, training and service.

At UBC, in putting everything together, we took one more important step, we offer you the choice of purchase, rental or lease plans.

So we're suggesting that now is the time to take a good look at the money you're spending for voice and data communications. And ask yourself whether you are getting the most for your money?

Better yet, ask us.

We might just be able to show you how the amount of money you're spending can get you a more efficient, more effective communications system.



Today's fast moving communications need a total communications company.

United Business Communications, Inc.

A subsidiary of United Utilities, Incorporated

6405 Metcalf Ave. / Shawnee Mission, Kansas 66202 / Telephone (913) 362-5300

Sales and Service offices in Boston / Baltimore / Chicago / Dallas / Houston / Kansas City / Los Angeles / Miami / New Haven / Pittsburgh / San Francisco / Washington / Toronto / Canada / London / England / and other principal cities.

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PHOTO AND ART CREDITS: David Corson-A. Devaney, page 19; D.P.I., pages 22 and 23 bottom; Art Detman Jr., pages 23 top and 55 top; Bettmann Archive, page 26 left; Bernie Cleff, page 26 right; Nancy Palmer, page 28; John Launois-Black Star, pages 29 left and 30; Dorka Raynor-Nancy Palmer, page 29 right; Black Star, page 34 left; London Daily Express-Pictorial Parade, page 34 right; Jim Mahan, page 35; George H. Crawford, page 41; St. George Tucker Ranson, pages 42 and 43; Ian Yeomans, page 51; Ed Fitzgerald, page 54 top; Jerry Frank, page 63; The Times, London-Pictorial Parade, page 71; Chart by Pete Di George, page 36.

COVER PHOTO: Ralph Breswitz

FORBES is published twice monthly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second class postage paid at Post Office, New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.

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Side Lines

Foiled

WE AT FORBES have long been bothered by the fact that while mutual funds have a vast \$45.2 billion in assets, bank trusts have a far vaster \$282.7 billion. What bothers us is that we have been able to serve our readers well with our annual rating of mutual fund performance, but we have not yet measured performance of bank money management.

It's not that we haven't been trying. For several years now we have been contacting bank trust officers and asking them to supply us with figures on which we could measure their performance—much as we have done with mutual funds. Our problem with the banks is much more complicated than with mutual funds. Funds are required by law to provide many figures that banks aren't.

Some banks were willing to help us. Others weren't. In a few cases, the bankers told us, in effect, to mind our own business—just as some fund managers did in the early days of our mutual fund survey. Other bankers were more reasonable but still declined to cooperate. "We're not in the go-go business," one of them said, "and if you compare us with mutual funds, you're going to lead people to do just that—compare us with go-go funds." Still others were most cooperative.

At any rate, the whole subject now is academic. Last summer the Comptroller of the Currency in Washington informed the banks not to fill out FORBES' questionnaire. In addition, one worried banker wrote us: "We also encountered the opinion of our own counsel that Regulation 9 of the Comptroller of the Currency might forbid us participating in such a survey." This regulation states: "The bank shall not advertise or publicize its collective investments fund(s)."

What gives? we asked. Responded Preston Kellogg, chief representative in trusts, Office of the Comptroller: "Magazines may not use the results of surveys properly. We don't want to get banks competing against each other for performance, because this could result in a poorer quality of assets."

Frankly, while we can see why responsible bankers are concerned about getting involved in the go-go rat race, we think the Comptroller of the Currency is wrong in preventing those who want to disclose from disclosing—as if to say that the press and the public aren't mature enough to handle complicated information in a responsible way. Still, Big Brother has spoken and we're unable to get the figures we need to measure bank trusts.

Sorry about that, but for now the best we can do is to pass on some advice that our statistical department has for those who have banks managing their investments:

1) Every so often—not too frequently, because good money management can't be measured over short periods—figure the percentage gain or loss in your account. Then compare this with changes in the popular averages over the same period, or with changes in any mutual funds you may hold. (Unfortunately, you won't be able to measure results against the Ratings shown in the FORBES Annual Mutual Fund Survey, because you won't have comparable figures.)

2) If making your own comparison is too complicated, try calling the bank and asking it to do the comparisons with you.

3) If the bank won't do that, then maybe show your account to a rival bank for comparison with similar accounts. ■



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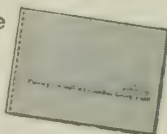
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READERS SAY

The Figure Is Too High

SIR: With regard to the Sept. 15 editorial [All Bets Off If—], no one with any knowledge of the facts could have used the figure of a \$26-billion deficit for fiscal 1971. The top figure I have seen in print was \$18 billion for fiscal 1972 and it assumed that everything possible would go wrong. About the need for eye doctors in Washington, I am absolutely assured that the preliminary figures do indeed indicate an increase in real economic activity. Price increases have moderated considerably recently and do show that the anti-inflation program is working. I do appreciate your pointing out that the move ahead must be a gradual one towards economic health—it's just that you seem to see the progress as more gradual than others read it.

With regard to budget deficits, the President will accept a deficit reflecting revenue shortfalls which are due to slacks in the economy. To the extent that the economy is short of full employment, therefore, revenues will correspondingly fall short, resulting in a deficit within reasonable bounds in the President's view.

—HERBERT G. KLEIN

Director of Communications
for the Executive Branch,
The White House
Washington, D.C.

Giving an Account of the Accountants

SIR: Your recent article (FORBES, Oct. 1) on the Accounting Principles Board and its recent "Opinions" on business combinations and goodwill was a masterful sketch of the behind-the-scenes pressures that continue to bedevil the effectiveness of the APB.

Your description of myself as a certified public accountant is in error. I am not a holder of a CPA. The designation should be security analyst.

—THORNTON L. O'GLOVE
New York, N.Y.

SIR: Here is another accountant who hopes you will "keep after us."

—ROSS McELREATH
Houston, Tex.

SIR: Your article comes as a distinct disappointment. The two new Opinions by the Accounting Principles Board on merger accounting were the most controversial ever undertaken by the APB. Contrary to your assertion that pooling accounting was left "virtually intact," the new rules end the optional use of pooling or purchase and use of a combination of the two: end poolings by the kind of securities that have been called "funny money"; end one type of "instant earnings" obtained from acquisitions made after year-end, and sharply curtail other "instant earnings" by the sale of assets carried at historic cost rather than current value.

While the new rules may not be so strict as some would like, the public is

better served by them. In fact, the strictness of these rules continues to draw criticism from industry, a clear refutation of your implication that the accounting profession is not independent of business management.

—LEONARD M. SAVOIE
Executive Vice President,
American Institute of Certified
Public Accountants
New York, N.Y.

SIR: Omitting part of my sentence in your article conveyed the erroneous impression that I agreed with your thesis that management had influenced the CPAs to tone down their decision on pooling. Individual accounting firms have too diverse a clientele to permit them to support any single position at management's behest. The fact is that the one point on which management was united was its opposition to the amortization of goodwill. This was the very point that the CPAs did not concede.

—LEE J. SEIDLER
Professor of Accounting,
New York University—Graduate
School of Business Administration
New York, N.Y.

However, Professor Seidler believes that in the future management, through presentations direct to the Securities & Exchange Commission, may increasingly influence accounting principles—ED.

SIR: FORBES seems to be advancing the specious theme that simplicity is always virtuous. The legend at the bottom of any certified financial statement clearly states that the notes are an integral part of the statements. Your article implies that accountants should shield the investor from the chore of reading the financial statement in full.

—ALBERT KLINE, CPA
Philadelphia, Pa.

... and Taxes

SIR: I was glad to see your caution about "the Government ought to do this" (Fact & Comment, Oct. 1). Whenever anybody says, "The Government should pay for that," I always say, "You don't really mean the Government, do you? What you really mean is the taxpayer."

—GILBERT W. FITZHUGH
Chairman,
Metropolitan Life Insurance Co.
New York, N.Y.

Tobacco Takes a Back Seat

SIR: I take exception to "The Lively Corpse" (FORBES, Sept. 15), which states that none of the tobacco companies' diversification efforts could be considered a "noteworthy triumph." Since Liggett & Myers began its long-term diversification program just six years ago, nontobacco sales have grown from zero to 54% of total sales (as of June 30, 1970), and today the company has a higher percentage of nontobacco sales than any other major cigarette producer in the U.S. For
(Continued on page 73)

Trends & Tangents

BUSINESS

Inflation Note

President Nixon and his staff may insist that inflation is beginning to wane and that belt-tightening is once again the rule, but one group has yet to get the message. New York's ticket scalpers have raised their prices by some 20% since last season. A pair of prime tickets to *Hair* now cost \$50, up from \$35 in the spring; and a New York Jets football ticket now goes at \$20 rather than last season's \$15, even though the Jets have been having a rough time this year (four losses in their first five games). What might the price be if the Jets and the economy begin to make a comeback?

Everything under Control

Computer-controlled processes and even computer-controlled plants are common enough these days, especially in continuous-process industries like oil and chemicals. But now computers are being put to the task of controlling many other aspects of a plant—temperature and humidity, radiation levels, sound levels and the like. As a result of work done for the Atomic Energy Commission's Argonne Laboratories, Motorola has come up with one such system. Selling at a base price of \$24,000, it utilizes a compact digital computer to regulate nonproduction-line conditions in as many as 30 different buildings from one central point.

Please Let It Ring . . .

Some of the largest telephone companies have finally decided to look for outside assistance in tackling their mounting service problems—that is, they are hiring smaller companies to help them provide what they cannot. As a result, the harder it is for you to place a call, the more profitable it is for companies like Burnup & Sims Inc., which installs and maintains telephones for companies like ITT, General Telephone & Electronics and Southern Bell, a part of the Bell System. The only national company in the field, operates in 29 states and the Caribbean, gets 65% of revenues from such services.



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And when it comes to softness our Palmer® Handifold® towel is the softest C-fold towel you can buy.

Test it yourself. Blindfold your

secretary. Then give her a Palmer® Handifold® towel and one of the towels you're now using. Ask her to rub them between her fingers and tell you which one's softer. She'll probably choose the Fort Howard towel.

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Statement by Forbes Magazine

On Article Concerning Kinney National Service, Inc.

FORBES wishes to correct certain statements and conclusions in the article on Kinney National Service, Inc. published by FORBES in its issue of June 1, 1970, and to dispel any mistaken impressions that may have resulted.

FORBES did not state nor intend to imply that Kinney lacks liquidity or is not a viable company or that Kinney's accounting procedures are improper.

FORBES recognizes that Kinney's stock has a substantial book value; that Kinney's reported per-share earnings for the nine months ended June 30, 1970, are approx-

imately 18% ahead of Kinney's earnings for the corresponding period a year ago; that Kinney has consistently followed generally accepted accounting principles; and that Kinney's annual financial statements have always been accompanied by unqualified "clean certificates" of Arthur Young & Company.

FORBES further states that it did not intend to imply that Kinney is linked with the Mafia and did not intend to imply that Kinney's officers or directors are men of other than good reputation and integrity.

Trends & Tangents

Franchised Pollution

Add this year's pollution fad to the franchising game of past years, and the result could be a profitable new business. So hopes New York Testing Laboratories, Inc. in offering the first consulting franchise to professional engineers interested in pollution-control work. For a \$25,000 initial investment, the franchisee gets an exclusive urban territory as part of a package deal that includes equipment, consulting, training and laboratory backup. NYTL figures that a "self starter" could gross upward of \$80,000 in the first year.

It Takes a Silver Bullet

Video cartridges, once dreamed of as an alternative to fluff TV programming, also have a nightmare element. In a deal with Cartridge TV, Inc., American International Pictures is bringing the golden gories of the Fifties to your living room. Chosen for their "home appeal," the first group of 15 films includes *I Was a Teenage Werewolf*, *Blood of Dracula*, *The Spider*, and *Machine Gun Kelly*. Mr. Hyde would be pleased.

Powdered Action

While athletes quenched their thirst with so-called "action" drinks like Quickkick, Gatorade and Sportade, off-the-road buffs chewed pebbles. The easy-riding generation can now carry a 2-oz. packet of

powdered Gatorade that makes a quart when mixed with water from "a cool stream or well." The mixture, a solution of glucose and salts similar to the extracellular fluids of the body, is easily absorbed for quick energy. Maker Stokely-Van Camp hopes it is also easily absorbed by the motorcycling market, and is distributing the packets through a distributor of specialty motorcycle parts.

Harbinger?

The Wisconsin Supreme Court, in a case against J.C. Penney Co., has ruled that Penney's 1½% monthly interest rate on revolving charge accounts exceeds the 12% annual maximum permitted by Wisconsin's usury statute. Penney will drop its rate to 1% in Wisconsin as a result of the decision, which is expected to apply to nearly all other retail revolving credit plans and possibly bank credit cards as well in that state. The big question is whether the Wisconsin ruling—a number of other states have 12% interest maximums like Wisconsin's—will touch off a rash of challenges across the country.

Bubble, Bubble, Toil & Trouble

Selling soap is so tough a marketing job that even the pollution scare is being used by companies striving for individuality in their products. After years of detergent powders ballyhooed as containing enzymes, additives, whiteners and brighteners, products are beginning to appear that are guaranteed

(Continued on page 72)

HOW DOES THIS BOOK START?

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Rouge et Noir News

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"In 1964, Westinghouse Power Systems sales were slightly over \$500 million. In 1969, they were over \$1 billion. Our after-tax earnings were \$50.6 million in 1969. Over the next five years, we expect a 60% sales growth—this based largely on orders we have now. Because of the high efficiency of our new plants, we expect the earnings improvement will be greater yet."

John W. Simpson

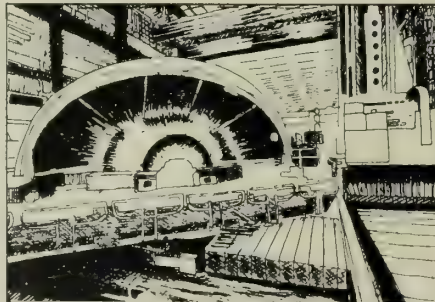
President
Westinghouse Power Systems
October 1, 1970

\$3.2 Billion Backlog

Since 1967, Power Systems has invested \$286 million in new plants, and expanding and modernizing existing plants. In 1970-71, another \$214 million.

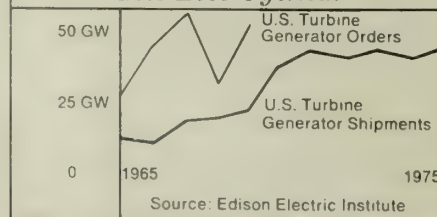
To make this profitable, Westinghouse Power Systems has \$3.2 billion on the books. Most is for long lead time items: large turbine generators, nuclear reactors, nuclear fuel. Deliveries will continue through 1975.

With the high efficiency of the new Westinghouse plants, these should be highly profitable orders. Among the major new facilities are plants to manufacture nuclear turbines, components, steam generators and fuel; and small power transformers.



Example of manufacturing cost reductions from our new-plant program. This machining center replaces six large conventional machine tools. It machines nuclear turbine components weighing up to 100,000 pounds with one setup instead of six.

Our Power Business Gets Less Cyclical



The transmission and distribution parts of our business grow at a steady rate; turbine generator orders fluctuate. Nevertheless, Westinghouse turbine generator *billings* will be quite stable in the '70s. The long lead time of today's large units straightens our billing curve.

WESTINGHOUSE IS THE LEADER IN NUCLEAR POWER

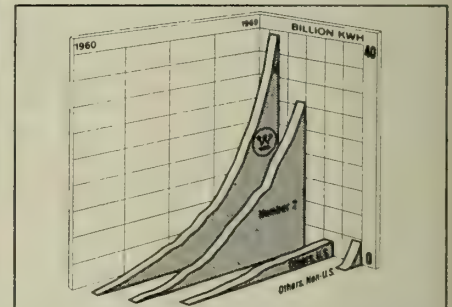
Westinghouse designed, built and fueled the first commercial nuclear plant in the U.S.

Since then we have produced and put in operation commercial nuclear plants with more megawatts of capacity than any other company.

The nuclear orders now on our books include 16 plants of 1,000 megawatts or more—the size expected to dominate in the '70s for reasons of economy.

★ ★ ★

Westinghouse Increases Lead In Nuclear Fuel



For ten successive years, Westinghouse nuclear fuel has produced more commercial power than any other company's. We expect our 1970 billings for nuclear fuel to be one-third higher than 1969.

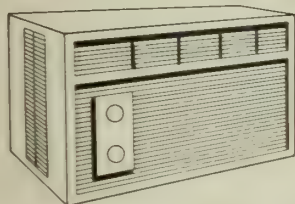
Turnaround In Turnkey Losses

In 1965 and 1966, Westinghouse (and competition) took turnkey orders for nuclear generating equipment. At firm prices. Construction costs skyrocketed; we all lost money. This year, finally, four of our turnkey plants will be completed—two running and two ready for fueling—by year end.

Foreseeable construction overruns have been charged against income as we built these plants. One of our last two turnkey plants is scheduled for completion in October, 1971; the other in March, 1973.

FORBES, NOVEMBER 1, 1970

New growth prospects:



Air Conditioning Growth Expands Power Market

Traditionally, U.S. electric generating capacity doubles every ten years. It now appears that the next doubling will happen in eight. The biggest reason is the growth in air conditioning. In 1960, less than 15% of U.S. homes had air conditioning. In 1969, the figure was over 40%. By 1980, we forecast 80% of U.S. homes will have air conditioning.

Despite all the increase of generating capacity expected by 1980, on a hot day that year, air conditioning *alone* will require 21% of the total U.S. generating capacity.

★ ★ ★

Nuclear market up, Lead time down

1969 was thin in nuclear power plant orders. Not 1970. Through September of this year, worldwide nuclear orders totalled about a fourth higher than in all of 1969.

One reason is that, with new nuclear manufacturing facilities, the long delivery delays of the past can be avoided. For example, our last five nuclear plants averaged 51 months from order to startup. Westinghouse is now quoting 62-month delivery of 1100-megawatt plants.

New Generating System, New Gas Turbine Market

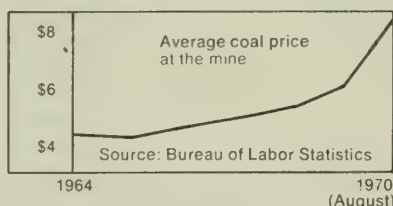
A new Westinghouse generating system has a fuel efficiency higher than all but the largest conventional steam plants, a much lower capital cost-per-kilowatt, and a present delivery cycle of 20 months.

A 240-megawatt "combined cycle" unit uses two standard gas turbines of 58 megawatts each, the largest industrial units on the market. Their hot exhaust helps generate steam for a standard low-pressure steam turbine, making use of heat which would otherwise be wasted. The combined system generates a kilowatt-hour of electricity on less than 9,000 BTU.

Though the unit can go on line fast enough for peaking, it is so efficient that utilities will probably use it to increase basic generating capacity. This is a new use for gas turbines, and offers Westinghouse the potential of large increases in gas turbine sales.

★ ★ ★

Coal, Oil, Gas Problems Strengthen Nuclear Future



The coal that generates more than half the country's electricity rose from an average price per ton of \$6.05 in 1969 to \$8.42 this August. Gas is not available for industrial uses in many areas. There is a shortage of the low-sulphur grades of residual oil required to prevent pollution.

In contrast to this inflationary picture, Westinghouse fabricates nuclear fuel on long term contracts on a *descending* price scale. Even with escalation, we expect the price of nuclear fuel to stay about level over the '70s.

Copperless Wonder

A new Westinghouse distribution transformer has coils made of aluminum cast in epoxy, rather than of the usual copper.

Beside eliminating the four main causes of transformer failures, the new aluminum coil promises a degree of protection against rising costs: copper prices tripled over the past three years.

Most major U.S. utilities have test quantities of the new transformer on their lines now.

A further improvement has been extensively tested and is being produced for large scale field tests by customers. With the aluminum coil embedded in a block of insulating epoxy, it has proved practical to cool the coil with air rather than with the usual insulating oil. For electric utilities, eliminating the oil has both cost and safety advantages.

The copperless transformer is expected to substantially increase the Westinghouse share of the \$300 million distribution transformer market.

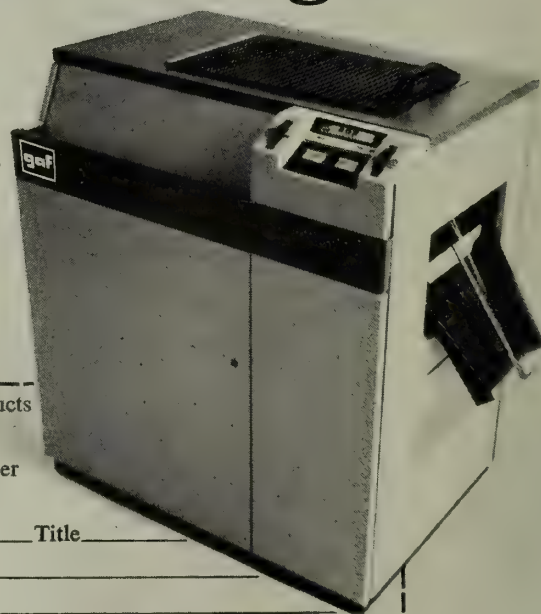


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Fact and Comment

BUSINESS IS GOING TO GET BETTER

But, as we've been saying, don't hold your breath until it happens. With the elections about to be over, Washington's embarrassing effort to talk the economy up can stop. For a while anyway, the Administration's business-wise members can analyze with candor and can the conning.

At the moment there's more money around for financing business growth than has been available in a long time, and at less cost to would-be borrowers. The trouble is,

though, that there are less would-be borrowers because most corporations have batted down present spending and future plan-spinning until things look more up. Anyway, financing that looming \$15-billion-\$20-billion federal deficit will soak up quite a bit of the country's loose change.

Oh, indeed, business is going to get better.

It's just a wee question of When.

(Stay tuned to FORBES for the answer which will be forthcoming as soon as we can think one up.)

HAS ANYBODY DONE ANYTHING ABOUT IT?

Remember some time ago when air-traffic controllers were wreaking havoc with airline schedules to call attention to the crying need for more attention to some of their dire difficulties?

Do you suppose that in the meantime any Responsible Ones in the Federal Aviation Administration have done much or anything to implement the recommended improvements?

LET 'EM ADVERTISE

Lawyers are not supposed to advertise.

So how do they acquire a Name and the clients that a Name attracts? They run for public office or enter politics on the appointive level and get their names all over the paper and TV, mostly for free.

On more esoteric grounds, some lawyers are seeking to change the prohibition against lawyer advertising. The rest of us might do well to support the change on the proposition that the public interest would better be served

if there were fewer lawyers in public office.

The great majority of the great majority of law-making bodies in this country are lawyers. They pass laws by the bucketful, which require lawyers by the bucketful who collect bucketsful of coin from the rest of us for advice on how to comply or how to avoid complying with all the stuff they pass.

I say, let 'em advertise like any other souls and we'll all be better off.

ONE TO SELL

People oftentimes ask me, "What's a good stock to buy?" and/or "What's a good stock to sell?"

I always beg off answering with any specifics on the basis that we make some of our money selling such advice (not following it).

But here's a case where I'd either dump the stock or dump the president or dump the president's scriptwriter or dump all three: In a brief statement to common shareholders accompanying a nickel dividend, the Big Fish of an Ohio outfit called Beasley Industries Inc. reported his outfit's slowdown thusly—

"Your Company's continued forward progress

as previously reported has been stabilized by the adverse business conditions created by the general economic slowdown occurring during the first half of the 1970 calendar year. As many companies must do during such periods, your management has allocated the tools of human talent and financial resources to a minimization of any adverse effect as a result of general economic conditions on the planned long range growth of your Company in a growing industry."

The guy who wrote that could and probably should be a scriptwriter for Bob Hope.

PICKING (UP) A BONE

Maybe it's a result of not having read etiquette books; maybe it's gluttony; or maybe it's a result of Scottish heritage, but I think it's nearly a crime and certainly a misdemeanor not to pick up and finish chicken bones or chop bones or spare ribs—after, of course, you've done all that's feasible with knife and fork.

This observation is not as irrelevant to the Economy as a few of you more superficial analysts might think. Imagine how much less meat and fowl would have to be bought and the effect of this lessened demand on the food price

index if all the picky, pecky and prudish eaters ate all there was to eat on what's set before them.

While Henry VIII and Tom Jones may have overdone the finger bit, just watch Louis XIV at that famed Court of Manners at Versailles go about the business of eating in Roberto Rossellini's fabulous film, *The Rise of Louis XIV*.

The timid and the fearful can be persuaded on the basis of patriotism: By picking up the bone, they are helping fight inflation by ending waste in every sense except the waist.

A THOUGHT

The editor of the "Thoughts" page passed on to me this memorandum: "I thought perhaps you might be interested in this for your editorial page." The Thought—

As nearly everyone knows, an executive has practically nothing to do, except to decide what is to be done; to tell somebody to do it; to listen to reasons why it should not be done, why it should be done by someone else, or why it should be done in a different way; to follow up to see if the thing has been done; to discover that it has been done incorrectly; to point out how it should have been done; to conclude that as long as it has been done, it may as well be left where it is; to wonder if it is not time to get rid of a person who cannot do a thing right; to reflect that he

probably has a wife and a large family, and that certainly any successor would be just as bad, and maybe worse; to consider how much simpler and better the thing would have been done if one had done it oneself in the first place; to reflect sadly that one could have done it in twenty minutes, and as things turned out, one has to spend two days to find out why it has taken three weeks for someone else to do it wrong.

—Attributed to John L. McCaffrey, some time ago CEO of International Harvester.

BLAH BLAH BY ZSA ZSA

Zsa Zsa, Ltd., a 24-month-old cosmetics outfit headed by the age-old Gabore herself, recently filed a Chapter 11 proceeding under the Federal Bankruptcy Act. At the time Gulf & Western was reportedly interested in buying the bag.

Commented Miss Hungary of 1936, with unconsciously devastating wit:

"Nothing at all is wrong at our company. We need to reorganize the management and we need more money. I think we need a genius like Mr. Bluhdorn to do both things for us."

In that same interview Miss Gabore described her expensive cosmetics line as using "some old family secrets" from Hungary. The formula obviously must involve large quantities of that prevalent chemical formula—abbreviated as BS.

IT TAKES MONEY

Only the inordinately rich can afford unbridled pessimism. The rest of us must look for silver linings in the blackest clouds.

—MALCOLM S. FORBES,
Editor-in-Chief

If someone robs you over the weekend, you can catch him in 40 minutes.

With the Panasonic Time Lapse Video Tape Recorder, you can capture 48 hours' worth of happenings on one reel of 1/2-inch tape. That plays back in 40 minutes. And gives you an indisputable record of every single thing that went on in front of the camera. Whether it was a thief stealing diamonds or blueprints. Or a guard just checking the safe.

But Panasonic didn't invent this new video tape recorder for you to use just over the weekends. You'll find it invaluable for use during the week. To keep an eye on places where you can't keep yours. Like storerooms where valuable equipment is stocked. Backrooms where securities are handled. In banks and hotels near safes. In laboratories and hospitals where drugs are stored. For all sorts of "eye spy" including prevention and detection of industrial espionage.

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Most of the modern plug-in appliances have a somewhat limited life-time. They're lovely while they last—but often they don't last too long.

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whereas most good electrics go from \$400 to \$600. The smart engineering that makes it smaller, also makes it cheaper to produce!

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White upon White

White Motor has a big problem called farm equipment. White Consolidated has a big problem called Allis-Chalmers. Put the Whites together and the problems may disappear—or will they?

IN ALGEBRA, a negative times a negative equals a positive. Grammatically, a double negative is a rather awkward way of expressing a positive thought. And now, assuming the kind indulgence of the Justice Department, Cleveland's White Consolidated and White Motor will attempt to prove, in a merger involving \$1.2 billion in assets, that a couple of negatives can add up to a positive in the business world as well.

On the surface, the proposed merger doesn't appear to have been made in heaven. White Motor gambled unwisely in farm equipment, and now is running such heavy losses that the entire \$950-million corporation was plunged into the red in the second quarter, with no immediate hope of improvement. Hard-pressed for cash, White Motor turned to White Consolidated last August after the failure of an earlier attempt to merge with Ethyl Corp.

White Consolidated, however, has problems of its own these days. A hodgepodge of machine tools, heavy equipment, white goods and sewing machines, Consolidated is a full-blown and highly leveraged conglomerate, run by hard-driving Edward S. Reddig (see p. 20). In the late Sixties, Consolidated gobbled up a half dozen or more sizable companies, but bit off more than it could chew two years ago when it went after Allis-Chalmers, the big Milwaukee heavy equipment maker. Consolidated wound up with 30% of the stock of Allis-Chalmers, but a rash of lawsuits prevented it from getting any more.

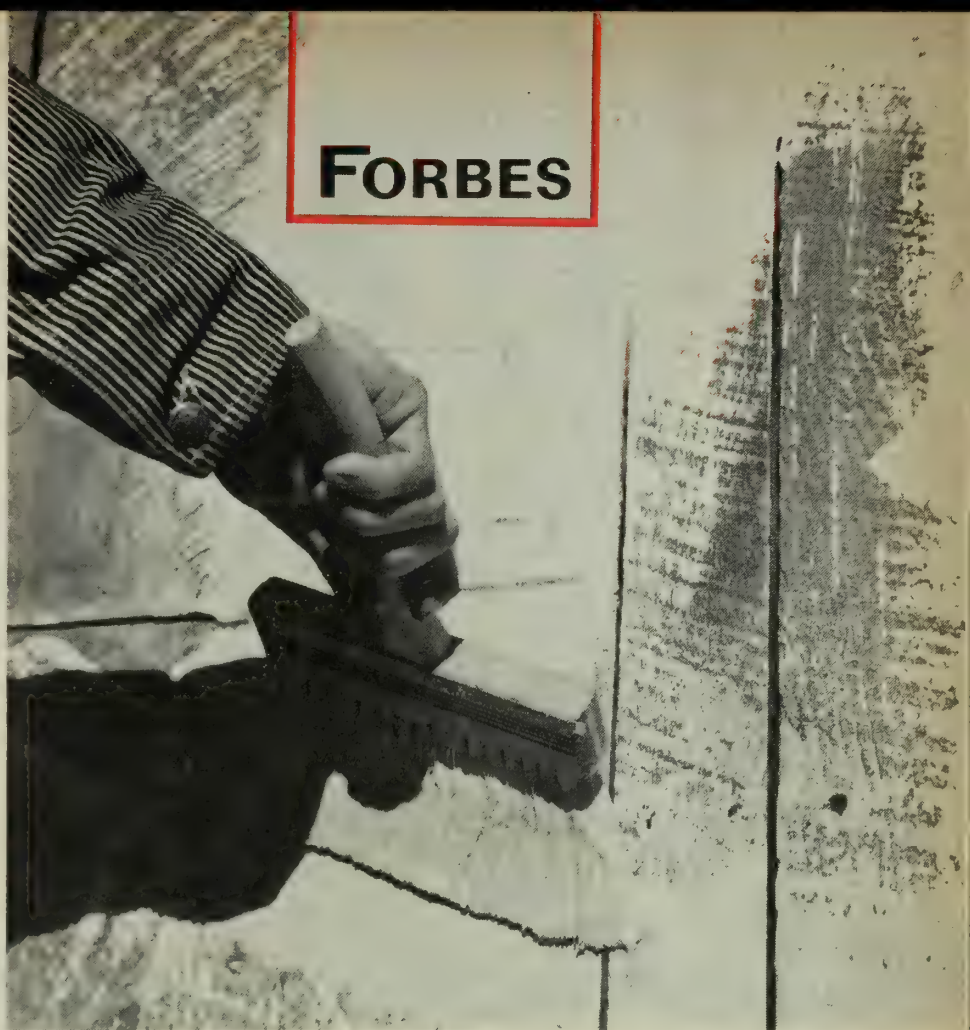
At this point, Consolidated has sustained a \$55-million paper loss on its \$121.6-million A-C investment, with no recovery in sight. On top of this, interest charges on the loans used to

finance the A-C purchase are running in excess of \$4.5 million a year. Consolidated's chances of ever acquiring Allis-Chalmers look pretty remote. Undoubtedly it would sell out if it could do so at a bearable cost.

Clearly Consolidated is in no position to sustain a \$55-million loss. For a company in volatile industries like white goods and capital equipment, it is already leveraged to the hilt. Its balance sheet shows \$244 million in long-term debt as against just \$210 million in equity, and the equity figure is in effect overstated to the extent that its Allis-Chalmers holding has declined. Thus, Consolidated's debt-to-equity ratio is nearer 1.6 to 1 than it is to 1.2 to 1, a circumstance that can hardly have escaped Consolidated's principal creditors.

Which is one reason—possibly the principal reason—why a merger with White Motor, for all its problems, would be so attractive. White Motor has equity of \$230 million and long-term debt of just \$84 million. Combined, the two companies would have an equity of roughly \$440 million as against long-term debt of \$328 million. In that setting Reddig could take even a \$55-million loss in liquidating his A-C investment and still wind up with a vastly improved balance sheet. And the merger could also have the happy

FORBES



result of diluting the 9% of White Consolidated owned by Lawrence Tisch's Loew's Theatres.

There is more than this to the merger, however. By this we do not mean that the two product lines fit together in any way, because they do not. But the merger will create some very interesting bookkeeping options. The chief of these involves what is known as negative goodwill. Negative goodwill arises when one company acquires another for less than book value; in theory, the company has acquired more assets than it paid for. Under current conservative bookkeeping, such negative goodwill is written off by reducing the book value of the acquired assets.

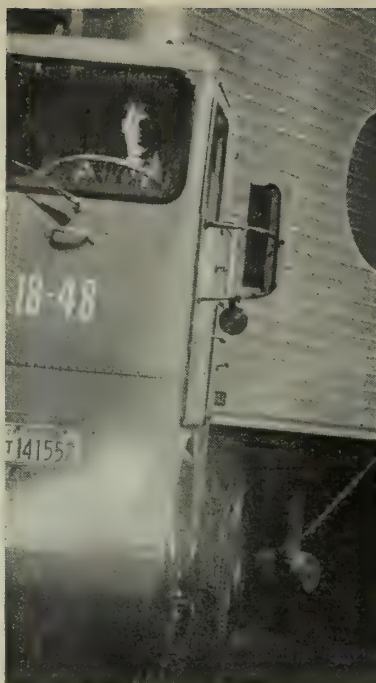
But there are less conservative options, and both White Consolidated and White Motor have availed themselves of them in the past. They may well do so again. These options, in effect, permit using some of this negative goodwill to offset expenses, provided the expenses have some connection with the merger. This, of course, has the effect of increasing reported earnings quite rapidly.

Consider, for example, what White Motor did in 1962 when it acquired Minneapolis-Moline for \$12 million less than book value. Or what White Consolidated did between 1966 and

1968 when it increased its reported earnings by \$12.2 million. What they did was offset various expenses—theoretically at least connected with the merger—with negative goodwill, thus increasing reported net income. Clearly, the \$55 million in negative goodwill that would arise from the merger would offer a dazzling opportunity.

Obviously, to pull off such a merger, Consolidated will have to put to rest the Justice Department's fears by getting rid of its Allis-Chalmers investment, since Allis-Chalmers competes directly with White Motor in farm equipment. Therefore the merged company would be amply justified in considering any loss from the sale of Allis-Chalmers as an integration expense chargeable to any negative goodwill the merger had created.

The larger question, of course, is just how amenable White Motor would be to Ed Reddig's considerable talents as a cost-cutter, liquidator and hatchet man. White Motor's problems in farm equipment stem not so much from any managerial deficiency as from the fact that in farm equipment White is still, as always, a marginal producer. Beginning in 1968 the farm-equipment business turned sour, and marginal producers like White and Allis-Chalmers have been in trouble ever since. In a little more than two years, White's share of market has



dwindled from around 12% to around 9%, generating this year a rising tide of losses. In the first half, White lost \$530,000 as against a \$15-million profit a year earlier.

White was hurt particularly badly because management for a long time dismissed the downturn as a temporary phenomenon. White kept building

dealer inventories into late 1969, tying up huge amounts of working capital. When the market didn't come back, the company had to move it by price cuts reportedly of as much as 40%.

In time, these problems will work themselves out. But White has another major problem in the making. Out in Canton, Ohio, White Motor is building an enormous \$90-million engine plant for 1971 operation.

By producing its own truck engines (perhaps 25% of the cost of a truck), White hoped to widen its thin trucking margins. The trouble is the plants' economies were built around the farm tractor engines the plant would also produce.

"They figured," says Sevier Bonnie, an analyst with Cleveland's Prescott, Merrill & Turben, "that short term maybe they could get their own engines in 10% of their trucks and 100% of their farm tractors and build from there. So they designed a plant that would break even on farm tractor engines alone. That way any engines they got in their trucks would put them in the black. As originally designed, to make that plant break even, they would have to build 25,000 farm tractor engines a year. Now they figure they can use only about 18,000. So they must either reduce capacity or find some outside customers—and that won't be easy—and pray that

Not with a Scalpel

FEW EXECUTIVES have been more regularly described as ruthless than Ed Reddig, 65-year-old chairman of White Consolidated. Reddig is a salty, explosive man with a penchant for vigorous expletives, an aversion to analysts and reporters and a talent for firing people wholesale. "Ed Reddig," says analyst Michael Connor of New York's Ralph E. Samuels, "doesn't exactly wield a scalpel, it's more like an ax. You hear stories of executives having heart attacks when he takes over their companies. But he seems to deliver the goods."

An accountant by training, Reddig moved over to White Consolidated in 1956 after 19 years with White Motor, where he rose from controller to executive vice president. In the years that followed, Reddig proceeded to transform the stodgy old White Sewing Machine Co. (which soon after the turn of the century had spun off White Motor) into a full-blown conglomerate. Starting with small acquisitions, he began going after major companies in the mid-Sixties—Whitin, Hupp, Blaw Knox, Bullard

and finally American Motors' Kelvinator and Studebaker-Worthington's Franklin appliance divisions.

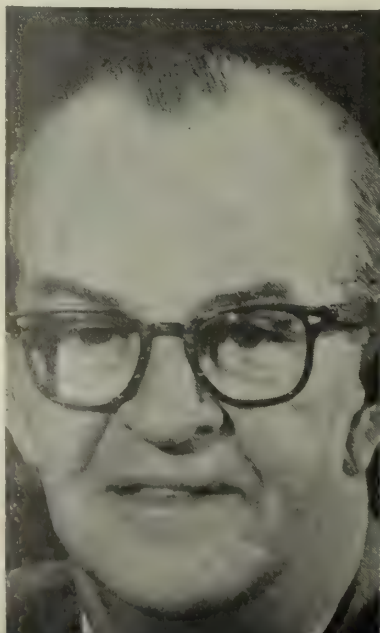
Result: Since 1967 earnings have soared from \$1.47 to \$2.65 a share. To be sure, Reddig has not hesitated to use "creative" accounting—last year's 20% earnings gain resulted largely from an accounting change—but White Consolidated

is freer of such accounting miracles than most conglomerates. "Their accounting is obviously pushed fairly hard," says one analyst, "but nothing to knock your eyes out."

Reddig is not without his defenders as an operator. Cleveland analyst Sevier Bonnie argues Reddig has done a first-rate job revamping Bullard and making a good thing out of Consolidated's white goods and appliance lines. "Sure, the appliance and the machine-tool businesses are soft, but I doubt that their earnings will be off much. They know how to go on a diet around that place—and go on it fast."

Bonnie even discounts the general criticism of Ed Reddig. "He's ruthless about things that are silly, but he has a heart of gold. And aloof? Why, when you have lunch with Ed Reddig, you go down to the company cafeteria and eat the *worst* food off a tray like everybody else. All of a sudden Ed yells across the room to somebody who didn't make his quota last month and tells him he'd better get off his ass and get to work."

Reddig of White Consolidated



they sell at least a few truck engines. "In retrospect, the whole thing turned out to be much riskier than management had ever dreamed. And I bet you there's very little interchangeability between the truck line and the tractor line in terms of capital equipment. The truck engines are V-type, the tractor engines straight fours or sixes."

Worst of all, the Canton plant has probably locked White Motor into the farm equipment business just at a time when a number of industry observers are predicting a big shake-out. As one analyst puts it: "If White gets rid of the farm equipment division, assuming they could do that, what the hell are they going to do with the Canton plant? Even then they'd have to negotiate themselves out of it with the City of Canton, which financed half of it with industrial revenue bonds."

Enigma

Can Consolidated's Reddig find a way out of the Canton problem? So far, he has been responsible for stretching out the construction schedule and laying off some people. Says one close observer: "The first thing Ed Reddig did was to ask how many people were working down there that were outside the construction business. He looks at the figures and he finds 150 people who were in Canton to run a computer center which had been set up to monitor the foundry. The foundry doesn't go on stream until late next year. And Ed Reddig, you know, is death on computers. So Reddig says: 'What the hell are those 150 people doing on the payroll down there?' And Hank Nave of White Motor says: 'Damned if I know.' So then Reddig says: 'Well, I suggest we fire 'em!' They were fired."

In future, some observers suggest, he could turn Canton over to the production of axles, transmissions and other geared components for White trucks, or even components for Consolidated products. But whatever he does, Ed Reddig is in for a stiff challenge to his reputation as an operating whiz.

Meanwhile, the question remains: Will the two Whites of Cleveland ever be allowed to merge? The Allis-Chalmers problem aside, the Justice Department has gone on record as opposing *any* merger of two companies this size. Some observers are betting that if White Motor can plead poverty with sufficient conviction, the Justice Department may have to accept the merger. If that theory is correct—and the logic has its appeal—then White Motor shareholders should brace themselves for a diet of bad corporate news from Cleveland. ■

Mirror, Mirror on the Wall...

McDonald's Corp., the hamburger chain, is growing 30% a year. And unlike yesteryear's sizzling fast-food franchisers, it isn't doing it with mirrors.

THIS has been a rotten year for fast food. The \$6-billion industry is in bad odor from the sins of several operators who were really in the fast-buck business. Some companies have folded, lawsuits abound and there are even hints of scandal.

As a result, everyone from bankers to potential franchisees is shying away. Most of the 60 or so fast-food stocks are way below their 1969 highs, and now the earnings of some of the better companies are flattening.

Yet Chicago-based McDonald's Corp. has maintained its 30% annual earnings growth and its common stock multiple at a respectable 27 times estimated 1970 earnings of \$1.50 per share. McDonald's is adding 275 new hamburger stands this year for a total of some 1,570, more than double the number in 1965; and average store volume will hit \$430,000, more than 70% above the 1965 figure. Earnings will hit \$17 million, or \$1.50 per share, on sales of \$175 million, up from \$12.6 million, or \$1.16 a share in 1969, on revenues of \$130 million. And the company could grow another 30% next year, with average store volume climbing to roughly \$470,000.

McDonald's seems to have done it mainly by spurning fast-buck gimmicks and concentrating on its business, which is selling modestly priced hamburgers to the public. Says President Fred Turner: "Those Chinese-money guys in fast food make me nervous. We aren't in their business; we don't sell franchises to make a buck. We're a restaurant chain."

Here are some of the pitfalls McDonald's was able to sidestep:

1) Many companies reported big "earnings" for a while by taking stiff initial franchise fees into income before opening any outlets. Minnie Pearl's Chicken Systems (now Performance Systems Inc.) leaned so heavily on one-shot fees that the practice became known as "Minnie Pearl-ing it." That phrase may be the company's only lasting contribution to fast food. Its stock, once up to \$68, is cheaper today than its chicken—50 cents a share vs. 99 cents a meal.

By contrast, McDonald's \$1.9 million in franchise fees this year will account for a modest 1% of revenues. What distinguishes McDonald's from nearly all other food franchisers is that it provides a store ready for business and the land beneath it. For this it gets 11.5% of each store's volume

(8.5% as rent and 3% for management services). If the store prospers, so does McDonald's. If it falters, ditto.

2) Some companies take their profit by selling franchisees everything from tartar sauce to paper cups, often at inflated prices. But recent court rulings suggest that such tie-ins—the only revenue source for several companies—may violate antitrust laws. McDonald's sells no supplies to franchisees, though the company was founded by a former paper-cup and food-equipment salesman.

3) Many fast-food franchisers rushed into fried chicken, roast beef and other items to boost sales this year, without first studying whether the new items would actually increase profits. McDonald's stuck to its old 20-cent hamburger, 55-cent Big Mac and the like—though it is now studying fried chicken. If anything, McDonald's is too conservative about new foods. It tested big burgers—today's big seller—for years before adopting the Big Mac.

4) Many franchisers sacrificed growth for instant profits by selling off entire regions to licensees who were supposed to franchise the actual outlets. Often the licensee fails to deliver. McDonald's has sold few U.S. area licenses, and this year repurchased its Canadian licenses as a first step toward major expansion there.

Buying Earnings?

In the last three years, McDonald's has added a new wrinkle to its basic business by opening 134 burger stands of its own in densely populated growth areas. This increases total earnings, but narrows profit margins, which in its own units are calculated against costs that include food.

The company notes that it is still adding many more franchised than owned units (190 to 85 this year), and that it plans long-range to own no more than about 20% of all McDonald's outlets. It now owns about 22%, up from 10% in 1966.

But it is at least doubtful that McDonald's can sustain 30% growth much longer without buying back many more outlets. The big challenge management faces is how to accept a flatter growth rate in the years ahead. For if management tries to force-feed 30% growth, it will surely have to tinker with the basic customers-first formula that made McDonald's successful in the first place. ■

The Island Kingdom of P.K. Wrigley

That's Santa Catalina Island, according to Wrigley's critics. But Wrigley says he's just preserving a little bit of old California.

As celebrated as one of the Islands of the Blessed, Santa Catalina Island is like some mountainous sea kingdom in the Pacific, just 22 miles off busy, smoggy Los Angeles. Indeed, it is the ridge line of a mountain range that rises high above the ocean floor. And it actually is a kingdom of a sort: 75.7 of its 76 square miles are controlled by chewing-gum tycoon Philip Knight Wrigley, the 75-year-old patriarch and still chairman of Chicago's Wm. Wrigley Jr. Co. The remaining third of an acre, in the city of Avalon, is owned by residents and businessmen, some of whom are bitterly opposed to Wrigley's rule.

Golden Opportunity

What makes Catalina so special is that it is the only major island off Southern California that has any great potential as a tourist and residential center. Catalina has a subtropical climate and plenty of unspoiled land: It is more than three times the size of Bermuda, 15 times the size of Capri, 225 times the size of nearby Disneyland. What's more, it's located within a few hours of 20 million tourists—

Southern California's 12 million residents and 8 million yearly visitors. Despite all this, Catalina draws only about 500,000 visitors annually. On the mainland, 10 million people a year visit Disneyland alone.

Moreover, Avalon—a single square mile 70% owned by the Wrigleys' Santa Catalina Island Co.—has deteriorated into a string of shabby shops and diners that cater mostly to boatloads of low-spending daytime visitors. The ballroom of the famed Casino is closed most of the time. The economy is stagnant, the population of 1,500 is less now than it was 40 years ago, tourism has declined. In an age of affluence when most desirable islands fear an inundation of visitors, how could this happen?

By the normal functioning of a free market, says Wrigley.

By diabolical design to avoid heavier taxation, say Wrigley's foes. Most of Wrigley's Avalon property is undeveloped, and even modest additional development might increase the valuation of it—forcing Wrigley to pay higher taxes. Indeed, according to some Catalina estimates, the island could be

worth anywhere from \$50 million up to perhaps \$300 million, depending on the extent and the intensity of its development.

The controversy over Avalon's development has rocked the city for years, and Wrigley's critics charge conflict of interest, preferential tax treatment, deception and double-dealing. "This is about as close to a serfdom as anything in the United States," says one Avalon businessman. "Wrigley's determined to keep us both barefoot and pregnant," says another. That his critics are unwilling to be named in print suggests the extent of Wrigley's power on the island.

All the Chips

His Santa Catalina Island Co. is the island's largest employer and bank depositor. It owns Catalina's only newspaper, only land airport, only sight-seeing operation, only gas station and three of its 25 hotels. Though Los Angeles County Sheriff's deputies patrol tiny Avalon, Wrigley's private guards patrol the rest of the island, which still abounds in wild boar, bison and deer (*see box*).



Most of the island's steep, brush-covered mountain sides and rocky beaches remain in their natural state. By other standards, the island is barren, but it is typical of Southern California. Wrigley used to spend whole summers at his white mansion overlooking Avalon, but now the mansion is closed and he visits only occasionally during the winter. "Summer is terrible because of all the people," he says in disgust.

Wrigley admits that revenues from his Santa Catalina Island Co. are in the "millions" but he says that profits are slim, only occasionally reaching as high as \$25,000 a year. But his critics see that merely as part of Wrigley's strategy in order to avoid taxation despite the enormous increase in property values. "If the land produces no income," says one of them, "then Wrigley can argue it must not be worth anything."

Avalon businessmen want a major first-class hotel, gourmet restaurants, an improved beach, additional sports activities, shopping malls and a general upgrading of existing facilities—but without, they insist, any incursion into Catalina's undeveloped areas. Actually, this isn't much different from what Wrigley says he wants for his island. "It's a challenge," he says. "I'd like to see the place developed and still look like California used to look,

Faded Glory

IN the Thirties and late Forties, Catalina was busy and famous. The Chicago Cubs, owned by the Wrigleys, trained there each spring. The big bands of Jan Garber, Benny Goodman and others played to crowds of 3,000 in the Casino's giant ballroom, and the music was broadcast on coast-to-coast network radio. In the Casino's auditorium, Hollywood movie czars previewed new films.

It was a golden age for Catalina, the only one it had experienced since being claimed for the Spanish crown in 1542. The island passed in 1846 from the last of the Mexican governors of California to a Santa Barbara ship captain, the first of several California businessmen who were unsuccessful in developing it.

In 1919, however, William Wrigley Jr. of Chicago acquired

before all the freeways and parking lots and high rises."

Indeed, both the city and Wrigley-commissioned studies favor development of Avalon. The dispute arises over implementing the plans. "Big-money people have come in here and wanted to work with the company,"



control of the Santa Catalina Island Co. for a reported \$3 million. He built one dance hall in 1921, removed it in 1928 to build the \$2-million Casino. Wrigley died in 1932, and ownership passed to his son, P.K., and other family members. Today P.K. is undisputably the boss, but he expects his son, 37-year-old William, to succeed him. Says P.K., "He's about the only one besides me you could get to work for nothing."

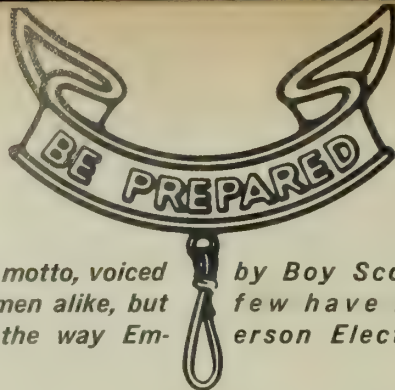
says one businessman. "But the restrictions are so heavy they give up and walk away." Says another: "Every time we get something going, he shoots us down. If he doesn't want to develop his Avalon property, he at least shouldn't impose impossible restrictions on someone else doing so."

Wrigley shrugs all this off gruffly. "Practically everybody is trying to do something on a shoestring," he says. "And then it collapses. I'm not accustomed to doing business that way." Wrigley says tight money prevents developers from beginning work on his development plan. "Something like that always happens," sighs one beleaguered businessman. "Wrigley keeps the people believing he's going to do something for them so they won't make too much effort on their own."

Slow Movement

There are, however, a few signs of change. Over the past five years the island has become self-sufficient for its water, which had been a major problem. And Los Angeles County is seeking Federal aid for a STOL (short takeoff and landing) airport on the island, which now depends mostly on slow, infrequent boat transportation. Also, money seems more available lately, which might encourage work on at least part of Wrigley's development plan. Even so, it's not likely that much will change in Wrigley's lifetime. But at least the island remains largely untouched. Whatever future developers—or Wrigleys—decide, they will have the incalculable advantage of a virtually untouched hunk of real estate to work with. ■





A simple motto, voiced by Boy Scouts and businessmen alike, but few have made it pay off the way Emerson Electric has.

St. Louis' Emerson Electric Co. is a very mundane outfit that makes electric motors and other rather prosaic electrical-electronics products for a wide spread of industrial, construction and defense customers. A lot of people have never heard of Emerson, and many who have confuse it with Emerson Television & Radio Co., now a division of National Union Electric Co.

But there is nothing mundane about Emerson Electric's profit performance. For 16 years in a row it has piled earnings gain upon earnings gain, including one of more than 10% in the year ended last Sept. 30, while its return on stockholders' equity averages better than 20%. What is remarkable is that Emerson has made such a record despite four economic recessions, repeated downturns in construction activity and, currently, a crushing depression in defense spending. Any one of these could easily have sandbagged Emerson's profits.

Why didn't they? Not because Emerson is insulated by any striking technological superiority or because it enjoys a corner on any of its main markets—though it does rank second

only to General Electric in electric motors. Nor even because its book-keeping has been inspired.

"You need only look at the cyclical markets we serve to see that we have no built-in resistance to recessions," says Chairman Wallace R. (Buck) Persons, 61, Emerson's chief executive since 1954. "The secret is that we make a religion of trying to be prepared at all times to take rapid action, sometimes drastic action, when trouble strikes."

If It Falter

That sounds almost too simple. Yet Emerson's particular kind of preparedness is well-nigh unique in U.S. industry. "Businessmen talk a lot about planning," Persons says, "but I know of only a few other companies that do it quite the way we do." Like other companies, Emerson's division managers each year map out detailed plans, both for the coming 12 months and for several years ahead. But while others concentrate mainly on offense, Emerson concentrates just as heavily on detailed defensive plans. Persons insists that his managers prepare not

just one budget, but three—a so-called "A" budget with expense and employment levels based on the division's reaching its anticipated sales volume, a "B" budget to which the division can retreat if sales slip 10% below expectations and a "C" budget for a complete market collapse.

Emerson's crash budgets were put to their stiffest test during the fiscal year just ended. Almost without warning, the Defense Department cancelled Lockheed Aircraft's big Cheyenne helicopter program on which Emerson, the leading U.S. maker of helicopter weaponry, was the largest subcontractor. Emerson's defense sales skidded from \$70 million to between \$35 million and \$40 million. At many companies such a disaster would have brought a flood of red ink—as it has at Lockheed. But Emerson's managers rolled out their "C" budget, chopping expenses mercilessly. So quick was their reaction that Emerson was able to avert any loss on its defense business last year and thereby kept its long earnings gain streak unbroken.

That Emerson was not even more vulnerable derives from some longer-range preparedness on Persons' part. Ten years ago over half of the company's \$125-million sales came from defense products, principally electrically driven bomber turrets of the sort it began making during World War II. The rest came from electric motors of all sizes, mainly fractional horsepower types sold to appliance makers.

During the early years of the Kennedy Administration, however, Emerson was jolted by the cancellation of

Pleasure Cruise?

Tanker owners are basking in profits. One went public even though Wall Street looked gray.

"MENTION SHIPPING," says shipowner Raphael Recanati, "and Americans think of government-subsidized fleets." It doesn't matter that tanker rates have been skyrocketing and that bulk ore carriers are virtually worth their weight in sterling. It doesn't even matter that most shipping companies—including Recanati's Overseas Shipholding Group (OSG)—are coining money these days. The investor folk wisdom has it that shipping is a complex, cyclical business, swarming with holding companies, one-vessel corporations and tax-free foreign flags, and all the sheiks in Arabia are not going to change it.

Whichever of these reasons applied, Recanati's OSG, Inc. went public at 12 in January and promptly plunged

nearly to 7 in dispirited Wall Street.

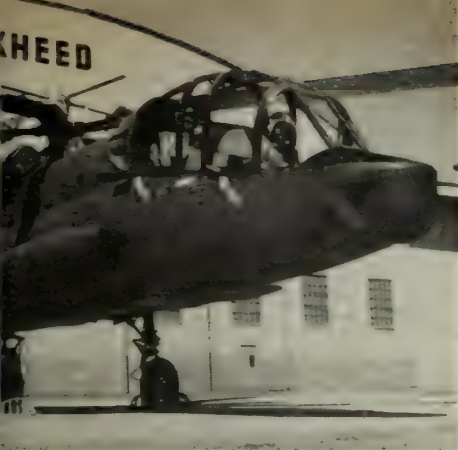
Recanati, son of the founder of the Israel Discount Bank, had formed privately held Maritime Overseas Corp. (MOC) 17 years ago as a ship management company. During the next few years, MOC created seven shipping companies that were pulled together to form what became the publicly held OSG. MOC still manages the vessels. The public got 16% of the OSG shares; the rest went to the original shareholders in the seven privately held companies. Some of those shareholders, including Recanati, have shares in MOC, and there are a few interlocking MOC-OSG directorates.

None of this apparent confusion is uncommon in international shipping, and none of it impedes profitability

when rates are on the upswing. Last year OSG, a profitable and fast-growing outfit, earned \$7 million, or \$1.30 a share, on some \$53 million in revenues, capping a five-year profit gain of over 200% on a 46% rise in revenues.

If Recanati is slightly less vulnerable to industry's normal cycles than many of his competitors, it is in the way MOC charters. The OSG fleet is divided between foreign flags and taxpaying U.S. flags. The latter provide access to U.S. shipping charters that foreign flag ships cannot get. Recanati's foreign flag ships are employed on a judicious mixture of long-term and "spot" contracts. The former are a hedge against the bottom dropping out of the market; the latter provide the big money during tanker shortages like the current one.

But why, if prospects are so attractive, did OSG go public? The edge, says Recanati, is in financing new ships: "Institutional long-term capital is more readily obtained" for a public than for



Canceling the Cheyenne helicopter program hurt Lockheed—but not Emerson, the major Cheyenne subcontractor.

two large manned-bomber programs; and Persons vowed at the time to reduce his dependence on military volume to 15% of total sales. He went about it gradually, along the way alertly latching onto some profitable Vietnam-inspired helicopter weapon-systems business. By late 1969 Persons had acquired some 12-15 companies making a wide spectrum of commercial and industrial products ranging from power tools, stereo components and waste disposals to power transmission equipment, automation systems and environmental control systems for homes and office buildings. As a result, in the aftermath of the Cheyenne cancellation, Emerson's defense business now is only about 6% of its \$650 million or so sales. And while all of its acquisitions were made for stock, Emerson's price/earnings multiple—

which held at 20 even in last spring's market—has been high enough to minimize any earnings dilution.

Having prepared well in the past, what is Persons doing now to prepare Emerson for the future? "We have to grow larger, much larger," replies Persons. "Size is something a company absolutely must have if it is going to compete successfully in any of the major national markets."

Does that mean Persons will be trying to achieve large size for its own sake? Isn't the difficulty of managing great size one of the major headaches both of its big electric motor competitors and of the conglomerates?

"Well, of course, large size isn't worth attaining if you do it the slapdash way Jimmy Ling did it," says Persons. "And a company is probably better off if it doesn't become a four- or five-billion-dollar colossus."

"But the fact is, any company that wants to compete against big companies in big markets, as we do, has got to be large enough and rich enough to keep up with technological developments on a broad front, to pay enough to attract and hold top-notch people, to buy first-rate plant and equipment, to support really professional staff operations in areas like distribution and labor relations."

How big? "It keeps changing," says Persons. "Twenty years ago I'd have said \$200 million. Now you've got to be around \$1 billion in sales."

By his own standard, that leaves Emerson with some growing to do. To reach \$1 billion the company must grow by half again its present size,

a task that Persons himself has complicated. Emerson's growth during the Sixties came largely from acquisitions in new yet related electrical and electronics fields. Persons now is determined to expand only in these fields, on the grounds that he and his managers could not cope effectively with operations in unrelated fields. "To become a sprawling jumble would be to expose ourselves to potential disaster, no matter how sound the other businesses might look," he says. Yet he realizes he cannot make many more acquisitions in related businesses without inviting antitrust complications.

Inside Openings

"So we pretty much have to do it internally, don't we?" he says. "Well, I think our earlier acquisitions have opened up for us a wide enough range of growth markets to achieve the size we need. Give us a few good construction years, for example—and I've got to believe they are just around the corner—and you could see some excellent growth in our environmental controls, lighting and appliance-related markets."

Certainly, with an annual cash flow of around \$75 million and long-term debt of only \$46 million (vs. \$300 million in stockholders' capital), Emerson has the financial capability to grow. Based on its record of alertness to opportunities and adversity, it seems to have the management savvy.

"But don't look for skyrocket growth from us," warns Persons. "We're just not a flashy sort of company."

Not at first sight anyway. ■



Busy Slips. Raphael Recanati's Overseas Shipholding Group (OSG) is busy building ships in the U.S., Japan and Europe. In June it launched the U.S.-built Overseas Alaska, 62,000 deadweight tons; in September her sister tanker, Overseas Arctic; and last month in Britain, a chemical carrier.

a private company. And, he adds, "Going public gave the private shareholders in these shipping companies a negotiable security."

Since OSG's January stock offering, Recanati has ordered \$140 million worth of new ships—mainly against oil company charters—to triple existing OSG tonnage to some 3 million deadweight tons.

Recanati says he senses a new investor awareness of shipping opportunities these days. Analysts by the dozen have been passing through OSG's Fifth Avenue, New York, portals in recent months.

OSG's figures don't detract from the mood. Nine-month earnings were \$1.08 cents a share on \$48 million in revenues vs. \$1.30 on \$53 million for all of last year. And OSG common is now up around 14—a far cry from the 7 of six months ago.

Of course, all the sheiks in Arabia can't take the cycles out of the stock market, either. ■

Vince Gregory's Clear Bill

Rohm & Haas is making its first moves into the cutthroat fiber business. The risks are enormous. The rewards had better be too.

TO THE ASTONISHMENT of Philadelphia's business establishment, Chairman F. Otto Haas, 55, stepped aside last month as chief executive of Rohm & Haas, the U.S.' 11th-largest chemical company. This was surprising enough in itself, but then Haas named as his successor 47-year-old ex-fighter-pilot Vincent L. Gregory, who was not a Ph.D. in chemistry, not a company director or officer or a member of the Haas family (50% ownership)—even by marriage.

Gregory had graduated from Princeton like every eligible Haas in memory; he *did* have a graduate degree (MBA), though only from Harvard; and he *had* been No. Two man in R&H's international division. But as Gregory sees it, these qualifications were almost secondary. Says he: "It was a matter of policy to get a younger man, that's all. I have a clear bill to look around, see for myself and then formulate my own policies."

What he is surveying is one of the most profitable chemical companies around. With 1969 sales of \$446 million, earnings of \$33.5 million, R&H is no industry giant, but it is nonetheless one of the savviest producers. Out of its own resources, it has won for itself worldwide leadership in acrylics, both methacrylates like Plexiglas and

acrylates like the vehicles for water-based paints and textile finishes. In both acrylics and plastics and in agricultural chemicals (R&H produces Dithane), it has achieved its commanding position over mighty du Pont, and it has done so with du Pont's favorite weapon—the potency of its research capabilities. Indeed, among U.S. chemical companies, probably only du Pont commits more of each sales dollar to research than Rohm & Haas.

Populous Plateau

As with so many other chemical companies, however, overcapacity and price competition have kept Rohm & Haas' earnings plateaued for years now. Despite a \$127-million increase in sales, R&H earned almost precisely as much last year as it did in 1964; and it did that well only because a change in accounting for the investment tax credit added \$1.2 million to net income. Since 1964 R&H's operating profit margins have narrowed from 27% to 21%, its return on equity dwindled from 16.2% to 10.5%, and this year it will do even less well. Nine-month earnings were off 22%, and by year's end, Gregory predicts, they may be off as much as 25%.

Gregory's own international division, which now accounts for nearly

30% of R&H sales volume, has played a major role in stemming R&H's earnings decline in recent years. But unless Gregory's "clear bill" leads him to decide otherwise, R&H's principal promise over the next several years lies in two new products that will put R&H for the first time right in the thick of the fiercely competitive fiber market.

One is a stretch fiber called Anim/8, the first really new fiber to receive a generic classification since the development of spandex (du Pont's Lycra). Still being product-tested by the clothing makers, Anim/8 will compete directly with dominant Lycra, but this doesn't faze Gregory. "Our fiber," he says, "will wash and dryclean without yellowing, Lycra won't. And it combines better with other materials." With these advantages, R&H hopes to nail down a significant though specialized part of the 350-million-pound (at \$1 to \$26 per pound) stretch-fiber market.

R&H's other new product is a new type of nylon carpet yarn intended to cut R&H in on an estimated \$400-million segment of the carpet market now dominated by du Pont's 501 line. "We have a development we think is as good or better than 501 with some slightly different properties," Gregory says. "It's the only other carpet yarn on the same level of quality as 501. We're not taking on the whole damned nylon industry, you see—not for a minute. Just maybe 1%."

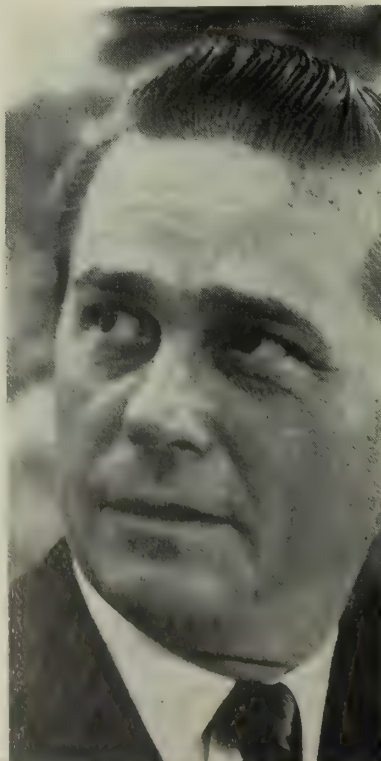
All this has cost R&H a good deal of money, of course. R&H's two fibers alone cost \$50 million to get into the market, and this year R&H's capital expenditures are likely to hit \$90 million, almost twice last year's and nearly three times that of the early Sixties. Over half of these expenditures is outside of acrylics, the traditional R&H stronghold, and if R&H's research staff also succeeds in creating some new specialty pharmaceutical products—a major area of inquiry now—the ratio will rise further.

"Our diversification," Gregory says, "has hurt our profits a bit. A lot of money has gone into plant and equipment and research and development, and it's taken a little longer to pay off than we'd expected. Now we're going to see the benefit of all this in 1971, and the real big benefit in 1972."

If it shouldn't, Gregory still has that clear bill to investigate other alternatives and a very strong balance sheet (long-term debt of just \$36.5 million) to support that investigation. ■



Off We Go. . . . Back in World War II when he was flying the P-51 Mustang fighter (above), Rohm & Haas President Vince Gregory (right) never dreamed that 25 years later he'd be chief executive of the company that made the Plexiglas in his plane's canopy. Few others did either. R&H's board reached past 20 other executives to tap Gregory. This was partly because of his performance in R&H's international division and partly because R&H's Executive Vice President John C. Haas wanted to give more time to the Haas Foundation.



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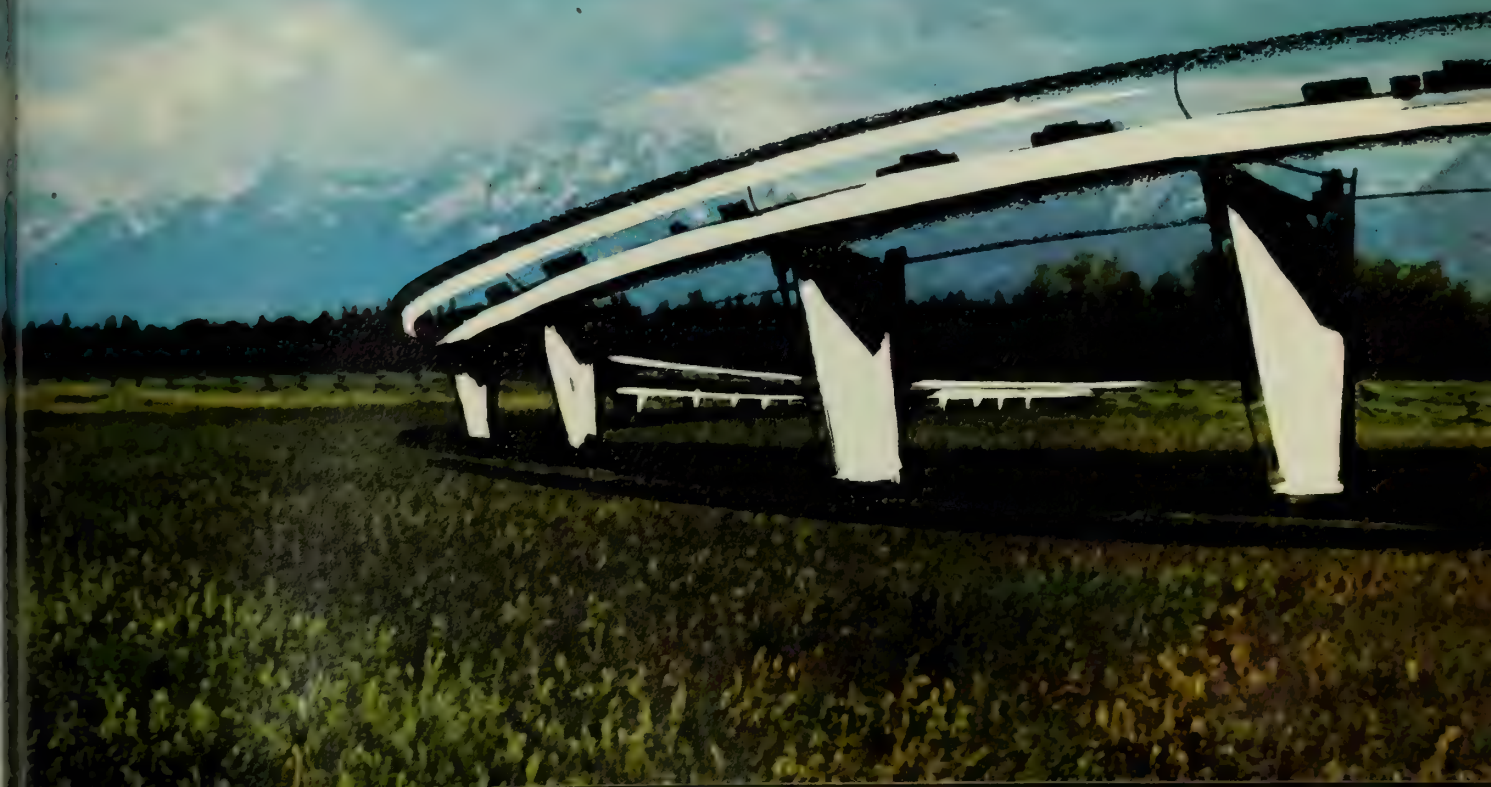
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 concrete block cement
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 low-heat cement
 dry mortar mixes

Calcium carbonate
 Low alkali cement
 Ready mixed concrete
 Ready mixed mortar
 Calcite products
 Bituminous concrete
 High calcium quicklime
 Fluxing lime
 High calcium hydrated lime
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 Veneer plaster
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 Asphalt cutback systems
 Asphalt emulsion systems
 Aluminum paints and coatings
 Non-slip coatings
 Fabricated reinforcing steel
 Ceiling grid systems
 Acoustical ceiling tile
 Embossed ceiling tiles
 Suspended ceiling systems
 Roof insulation
 Decorative roof coatings
 Reflective roof coatings
 Protective roof coatings
 Cold applied built-up roofing

Fiberboard roof insulation
 Monolithic membrane
 roof system
 Formboard roof deck systems
 Built-up roof systems
 Roof plank systems
 Tile roof systems
 Heavyweight asphalt
 roof shingles
 Polyester glass-reinforced
 protective systems
 Construction services
 Gypsum studs
 Refuse/trash chutes
 Grease ducts
 Chimney systems
 Movable partition systems
 Expandable partitions
 Metal ceiling framing
 Metal wall studs
 Furring systems
 Mineral fiber siding
 Plastic wall tile
 Polyurethane foam insulation
 Asbestos cement board
 Insulating sheathing
 Water-resistant
 gypsum sheathing
 Gypsum coreboard
 Fire-resistant gypsum
 wallboard

Water-resistant gypsum
 wallboard
 Vinyl-covered gypsum
 wallboard
 Wood-grain gypsum wallboard
 Sound deadening board
 Gypsum backing board
 Insulation
 Gypsum wallboard (standard)
 Epoxy flooring
 Latex flooring
 Cold-laid asphalt
 mastic floors
 Urethane elastomer
 membrane floor surface
 Floor tile adhesives
 Vinyl cove base
 Greaseproof asbestos tile
 Asphalt asbestos tile
 Self-adhering tile
 Sculptured vinyl asbestos tile
 In-register vinyl asbestos tile
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The Pacific Basin

"The U.S., with its coast reaching in an arc from Mexico to the Bering Strait, is one anchor of a vast Pacific community."

—Richard M. Nixon

THE WORLD'S GREAT lasting fortunes and its great lasting business successes have almost always gone, not to those who were simply shrewd or sharp but to those who recognized and capitalized on vast sweeping changes in technology, in sociology, in economics. Such an opportunity today, unquestionably, is the emergence of the Pacific Basin as a major economic force in the world. It is already creating huge markets. It will produce even grander ones in the years just ahead.

The Pacific Basin unites the western coasts of South and North America with Japan and the nations of the Orient and South Pacific, extending all the way to Australia. Among these nations are to be found the fastest economic growth rates in the world and the most rapid increase in international trade. While the U.S.' gross national product is growing at less than a 5% annual rate, South Korea's grew 15% last year, Japan's 12% and that of Hong Kong, Taiwan, Singapore, Malaysia and Thailand, 10%. Trade flows among the U.S., Japan, Canada, Australia and New Zealand—now totaling well over \$50 billion—have doubled in the last five years.

Hardheaded bankers and industrialists in California talk of a future in which Los Angeles—now grown into the West Coast's largest port—becomes a financial hub comparable to New York. Tokyo becomes an international money market comparable to London. This is no Year 2000 forecast; they see it occurring within five years. If the value of a supersonic jet is questioned on the already shrunken Atlantic, it is recognized as the means of shrinking the vast Pacific.

Meanwhile, however, human events plod along. While the potential for trade, travel, industry and all types of business in the Pacific Basin is everywhere recognized, there is a nagging question about the ability of U.S. business to take advantage of that potential in the face of competition from the dominant economic power in Pacific Asia: Japan.

"American participation in Asia is based on a miscalculation of Japanese power and intent," says David Lilienthal, the noted businessman and government servant, who is outspoken in his fear and dislike of the Japanese. Lilienthal, whose Development & Resources Corp. has helped plan the postwar economy of Vietnam, believes that "American business is naive if



Bali Hai. Tales of the South Pacific will soon tell a different story. The freight-hauling system (above) may remain, but only for the tourists.

it thinks it won't get its hide taken off in Asia."

Bunroku Yoshino, who has just returned to Tokyo from his post as First Minister in Japan's embassy in Washington, is angered by such thinking. "It is based on some false notion," he says, "about Japanese aggressiveness or competitiveness regarding trade."

It disturbs, too, Philip H. Trezise, Assistant Secretary of State for Economic Affairs, who argues that Japan as a competitor is more of a boon than a bane. He says: "If Japan were as poor as Malaya, what kind of market would there be in Asia? I thought we were the exemplars of competition. We took our chances."

Many do. "You don't hear us fussing about the Japanese," says President Eugene E. Trefethen of Kaiser Industries. "The Pacific area is Kaiser's biggest growth area in the next ten years."

True enough. It is certainly the extraordinary economic performance of Japan in the 1960s that is primarily responsible for the economic emergence of the Pacific region. Japan's gross national product, as every schoolchild surely knows by now, grew at a 12% annual average rate during the decade to \$175 billion (current prices) last year. In 1975 it is expected to reach \$400 billion. (The U.S. figures: \$971 billion and \$1.4 trillion, respectively.) On a per capita basis, the gap is closing: Today Japan, at \$1,692 per capita, is well under half the U.S. at \$4,734; but in five years Japan's per capita GNP will be almost two-thirds that of the U.S. The Japanese are confident of catching the U.S. by 1980.

Japanese Midwife

In turn, the rapid buildup of Japan's industrial machine acted as midwife to the nascent industrial economies of other countries in the Pacific. In Australia it was Japanese contracts for raw materials that brought in the American investment needed to mine the richest lode of minerals in the world. The Kaiser companies, American Metal Climax, Texas Gulf Sulphur, Cleveland-Cliffs Iron, Anaconda and others are doing the mining. Thus Japan's very expansionism is creating opportunities for U.S. companies. Not only do they earn the return on such investment, but the developments put hard currency into Australian pockets; U.S. exports to Australia have increased from \$423 million in 1960 to



some \$1 billion during the past year.

Similarly, South Korea, one of the world's fastest-growing countries, has become one of the fastest-growing customers for U.S. exports as well—\$700 million worth last year *vs.* \$274 million five years ago. In all, U.S. exports to the Far East—the Commerce Department's term for the countries at the western end of the Pacific Basin—increased a healthy 10% a year over the last five years.

The picture isn't all rosy. U.S. imports from the area outstripped even this growth rate, almost entirely because of the U.S.' unfavorable trade balance with Japan. What worries many Americans is that the Pacific concept may be more of a threat than an opportunity. They worry about the highly successful invasion of American markets by Japanese products, coupled with Japanese restrictions on imports and investments at home.

Japan continues to restrict direct

Modern Times. Urban bustle (left) and traditional contemplative serenity (right) coexist in today's Japan. Progress is welcome, of course, but many Japanese have become concerned over the quality of life.

U.S. investment. It virtually prohibits wholly owned or even majority-owned subsidiaries of U.S. companies in Japan. This, as a Commerce Department official's understatement puts it, has been "a disappointment to the U.S. Government." The restrictions have held U.S. investment in Japan's huge economy down to just over \$1 billion compared with \$19.4 billion in Europe, \$19.5 billion in Canada and \$13 billion in Latin America.

Japan has even managed to keep Eastman Kodak's little yellow box from dominating its film market, something that happens nowhere else in the world. Japan uses a 40% tariff and an absolute prohibition on local manufacturing to enable Fuji films to lead the Japanese market.

What this all means is that the Japanese will not necessarily be congenial trading partners. They won't always play what Americans call fair. By being tough in return, but not unreasonably so, the U.S. can hold its own in the Pacific Basin. But it might just as well forget about being Big Brother there. The Pacific will not become an American lake, not so far as trade and economics are concerned. The simple fact is that Japan is virtually certain to dominate the growing markets of Pacific Asia. Today 30% of the imports of Southeast Asia are from Japan; in five years Japan will account for 42% of the region's imports.

The situation is graphically put by Edmund Greene, commercial director-international for chemical giant Monsanto. "The Japanese regard this as their domain," says Greene. "We see our exports of commodity chemicals from other locations, except possibly Australia, declining to a spot basis," as Japan's chemical industry undergoes a forced-march buildup in the next few years.

But the Pacific isn't going to become a Japanese lake either. Not without a fight.

"We're not going to be pushed out," says Delmar R. Lammers, vice president for Australasia of Caterpillar Tractor. "But the competition is going to be damned severe." Naturally, Lammers does not call for import quotas by the U.S. Such barriers would hard-



ly help Caterpillar—whose overseas business provides nearly half of its total revenues—compete in Asia; they would cost more jobs than they would save in Peoria. He says, "What this country can do is put the marketing companies in a similar competitive position with the Japanese," whose business and government work so closely together, that even the Japanese call it "Japan Inc."

Instead of import quotas, Pacific-minded U.S. businessmen would prefer a more beneficent form of U.S. government help. The Export-Import Bank is likely to receive authority from Congress to sell securities to finance its operations. This would enable Ex-Im to provide short-term financing for U.S. exports and, as Bank Chairman Henry Kearns points out, "Fifty percent of trade moves in short-term financing." The Japanese government helps to set export goals, then allocates resources to help achieve them. It supports exports with low interest rates, tax incentives and some guarantees against loss. More important than any particular move, though, is the Japanese government's central role in export management. To compete, says Assistant Secretary of Commerce Robert McClellan, "We



Baby Steps. Asian agriculture is emerging from the water-buffalo-and-car era. New strains of seed have produced a "Green Revolution," eliminating the threat of widespread famine but threatening small farms. Electronics' need for low-cost labor, as in Djakarta's Ness Industries (right), brings the mixed blessing of wages and a market economy to Indonesia.

have got to have a greater capacity for international trade management."

What this means in part, another Commerce official says, is that the antitrust laws must be suspended at the water's edge. "When our national construction industry—Fluor or Bechtel or M.W. Kellogg—goes offshore to bid, they're bidding against governments. These fellows say, 'We could bid if we could consort.' Now they can't. But that's going to change." The example of U.S. engineering firms is apt, for it is the construction engineers abroad who make a beachhead for U.S. exports by specifying U.S. products.

A little perspective is needed here, though. The U.S. is not Japan. The U.S. has a broad-based economy; Japan's is at present still a relatively narrow, directed economy. The only reason Japanese companies can continue with 80% debt ratios is because of tight government control, centered in the Ministry of Trade & Industry (MITI). Such control virtually guarantees solvency. But U.S. businessmen would hardly welcome Commerce Department bureaucrats prying into their affairs the way MITI bureaucrats oversee Japanese companies' business.

Beyond that there is the reality of what development in nations is all about. It is the striving for a better life. Bunroku Yoshino is no sentimentalist; he is a tough Japanese diplomat. Question him about the unfavorable balance of trade the U.S. runs with Japan and he will snap back: "We haven't asked the U.S. to change dollars into gold. The dollar itself seems to be losing value so we are getting the short end...." Not so subtly, this Japanese diplomat is reminding Americans that Japan is not without defenses against U.S. protectionism.

But Yoshino is more philosophical when talking about his country's pres-

ent stage of development. "We have been saving 25% of our income," he says. "This is a poor way of life. We should get the fruits of our labor. If you compare the substance of life in Japan with that in Australia or even in Germany, you see that the Japanese lives in a small house he does not own. We have to improve that. The work-oriented life is not very happy."

"I remember 20 or 30 years ago the Americans were like that. I saw your salesmen and your *Death of a Salesman*. Now your style is changing. You are passing from one stage to another."

Remember Sputnik?

There are many who would interpret Yoshino's words to mean that the U.S. has gone "soft." This is superficial. A lot of the talk and writing about Japan these days recalls the endless articles and speeches of the late 1950s after Russia had put up Sputnik. Then pictures of Soviet lads studying their mathematics were meant to illustrate the looming decline of the West. Today, the Japanese worker or salesman has replaced the Soviet student as the goad to the American conscience, with just about as much long-term validity.

Certainly there is no "softness" in the plans and strategies of U.S. companies for competing with Japan on both sides of the Pacific Basin. There is a confident awareness of the American assets of management, technology and capital.

The Americans realize that Asia, though developing rapidly, is no post-war Europe. Europe was a sophisticated adult who needed a blood transfusion. Except for Japan, most of the Pacific nations are, economically speaking, children, who need to be cured of childhood illnesses and taught many skills, some of them elementary.

"What was destroyed in Europe

was merely the plant," says Louis Mulhern, the astute senior vice president and chief of the Asia division of Bank of America. "Managerial skills were there. So all you had to do was rebuild the bricks and mortar. The developing countries are different."

As Europe's market grew again after the war, U.S. companies had ample opportunities to set up in any one of a half-dozen countries in order to market Europewide. But Asia today has only one truly large market, Japan, with Australia a smaller developed economy but a special case. The rest of Asia lacks a sufficient home market in any country, sufficient infrastructure in some countries and sufficient progress toward regional free trade in most, to support European-style, overseas manufacturing by U.S. firms.

This situation has forced American commercial banks to develop the skills of investment bankers, has made appealing the idea of taking in local partners to lessen risk and spread investment and has forced American companies to see their Asian operations in global terms.

The three biggest U.S. banks—Bank of America, First National City and Chase Manhattan—have branches in almost every Asian nation. The smaller American banks are not far behind with representatives or as participants in consortia looking to do business Asiawide. In banking, the Americans are even more a presence throughout Asia than the Japanese. They will be moving the capital for its development.

Consider the way the Kaiser companies do business in Asia. Kaiser Aluminum & Chemical, for example, is content to be minority partner in many Asian nations. Its approach is extremely sophisticated. Says Vice President-International Lloyd Amos, "We can have a minority interest and have 100% of the metal supply. There is a better return than if we had 100% ownership, and I'm sure we couldn't do a job like our local people."

Kaiser Steel President Jack Carlson sees the Japanese push in steel not only as a threat but also an opportunity. For the steel mill that Kaiser and Armco Steel are considering in Australia, Carlson would like to attract



some Japanese equity money. To develop a coal deposit in Indonesia, Kaiser Steel is working jointly with the Japanese. "We'd have a majority vis-à-vis the Japanese," he says, "but the Indonesian government would have the true majority." And for a steel-fabricating plant in Indonesia, Carlson would again enter a venture with a Japanese steel mill.

"The general idea of a partnership with the Japanese in the Pacific Basin is a good philosophy," says Carlson. "They are getting money and they have the people." By "people" he means technical people. Even the Japanese concede that the Americans have the management talents.

While the Japanese will surely develop such managerial talents, they, too, like the idea of partnership or multinational investment in the Asian nations. Japanese economic success is so visible that Tokyo fears a reaction against too great a Japanese presence in the developing countries.

The truth is, the developing nations fear dominance by any foreign power, Japanese, American or other. Australia, at once a developed economy and a developing nation, is taking steps to insure that there will be an Australian share in any new mining venture in that rich land. What is at stake is not merely ownership of rich resources. With \$1 billion a year of foreign investment coming into the country, Australia clearly recognizes the need of foreign capital for development. What it wants in return are knowhow and management skills. In Sydney the government is now developing a school patterned on the Harvard Business School for training Australian managers.

James Wolfensohn, an Australian who has just become president of the British-owned J. Henry Schroder Banking Corp., thinks this will have

implications beyond Australia. "It is essential to have a multinational approach out there," he says, and points out that "the great need is for management people. The Australians can make a contribution here." The prospects for all are surely huge.

If the creation of wage-earning workers out of subsistence farmers is the first step in economic development, then the creation of consumer markets is the second. The process has begun in most countries of Asia as Japan's labor shortage and rising wage levels have forced such industries as textiles, footwear and small electrical appliances to seek low-cost labor elsewhere. The Japanese remark how similar today's manufactures of Korea, Taiwan and Hong Kong are to what Japan produced 15 years ago.

As the workers in these countries earn money, they need pockets to put it in. They soon find they need, or want, a lot of other things too. The U.S. Feed Grains Council enjoyed \$336 million worth of exports to Asia last year; but within five years such exports will be \$2 billion. Why? The Asians are acquiring, along with the means to pay for it, a taste for meat.

The Japanese, with their great abilities in producing consumer goods scaled to Asian realities (Honda scooters rather than Buick sedans), have to be conceded an edge here. But not too much of an edge. General Electric is successfully producing shirt-pocket radios—that symbol of an earlier Japan—in Hong Kong; Union Carbide ships dry-cell batteries out of Singapore. And who does not drink Coca-Cola?

Also worth pondering is the fact that people will not be denied what they want so long as they have the money. Japan has a 60% tariff on imported bananas. But the Japanese love bananas. The upshot is that Japan last year imported an astounding 1.6 billion pounds of bananas.

The present Asian markets are decent-sized: Korea's population is 31 million; Thailand, 36 million; the Philippines, 37 million; Taiwan, 14 million and Malaysia, 11 million. The future market is immense, from Vietnam's 39 million to Indonesia's 118 million; give each Indonesian just \$10 a year more in disposable income and you have way over \$1 billion in brand-new demand for consumer goods. And, of course, there is China's population of 740 million.

The great enigma is China. When will it become a market among nations? A new flexibility is evident in the resumption of diplomatic ties with Canada and in the renewal of talks in Warsaw between the U.S. ambassador and Peking's chargé d'affaires. But recent American attempts to at-

tend the Canton Trade Fair have been rebuffed by Peking. China's trade with European nations that recognize her government has not increased markedly. Yet knowledgeable overseas Chinese businessmen think the day could come within a few years when China will signal that it is ready to open contacts again.

"Once the Long-March leadership is dead, the technocrats will take over," thinks Bank of America's Louis Mulhern. "Then the only place China can turn is to the West for the surplus savings of the West. It will turn to Japan for skills, but to the U.S. and Europe for capital. China must turn to the West or fall behind in the race for industrial power."

This does not mean that Communist China will necessarily change its ideology; it means simply that the Chinese will do business, as they do today with the Japanese. The way such business is done reveals a lot about these two great peoples of Asia.

The Ming Manner

Japanese businessmen today are willing to endure lectures on Communism and the thought of Mao from their Chinese trading contacts because doing so enables business to proceed. In the 12th century, trade missions from a Japan that itself had an emperor were willing to endure the pose of Ming-dynasty China that trade consisted of gifts to China's emperor from vassal states and gifts from China's benevolent emperor to these states.

Therefore it is recognized on both sides of the Pacific how important is U.S.-Japanese cooperation in helping the rest of Asia to achieve economic prosperity. Chairman Yoshizane Iwasa of the Fuji Bank writes: "A community of interest encompassing the two leading Pacific powers would substantially ensure the economic prosperity and political stability of Asia and Oceania, and both nations might also agree on the desirability of peaceful coexistence with Communist China."

In this fantastic market, the smartest U.S. firms are already learning to compete with Japan on equal terms. General Electric has just doubled its manufacturing operations in Singapore to six. Its investment in Singapore remains small at present, but its plans for operations in the island free port are not. "The Japanese are zooming in on the electronics field," says Lawrence Ebb, counsel for the Far East for GE. "We've got to set up someplace in the Far East to compete." Compete, that is, not only in Japan or even in Asia, but particularly in the U.S. and Europe. And not only with the Japanese. In June Holland's Philips Lamp announced a \$23-mil-

This lake is all



When the local residents of the Southern California town of Santee realized their sewage water could be "washed", they stopped throwing it away. And began having fun with it.

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lion plant investment in Singapore.

With its electronic industry customers investing more in Far East production, Hewlett-Packard, the California-based instrument maker, found that it had to manufacture in the area. It picked Singapore, but not to aim at the Japanese market. (H-P already manufactures in Japan in a joint venture with which it is not particularly happy. "Our market penetration in Japan is one of our lowest," says the international operations chief, George Newman.) But Singapore allows H-P to counter Japanese competition in the rest of Asia which, because of foreign investment, has become a developing market for H-P products.

With Japan the single, sophisticated market, a company such as Ampex must employ a different strategy. Ampex' main line is a videotape recorder for professional broadcast use. The California-based company has 49% of a Japanese company (Toshiba owns 51%) for licensing its patents in Japan. The venture, says Ron Ballintine, head of development planning, "has been a resounding success." Elsewhere in Asia, Ampex does its own marketing of products exported from the U.S. Its license in Japan covers only Japan, so that when Asia develops communications to the point where there is a market for Ampex' videotape recorder, these will be supplied not by a Japanese company but by the American company, either through export or through local manufacture.

But technology can't do everything. The lack of basic industries—steel, metal shaping, machine tools, etc.—in Asian countries other than Japan deters American heavy industry from setting up local manufacture at present. Caterpillar, for example, competes with Japan's Komatsu through export from Cat's joint venture in Japan with Mitsubishi (Japan waited until Komatsu was strong enough before allowing Cat in at all five years ago), from the U.S. and even from Britain. It has a parts warehouse in Singapore and manufactures in Australia, where it leads the local market.

Flow of Toyotas

The U.S. automobile manufacturers for the same reason had no base in Asia to counter the flow of Toyotas and Datsuns out of Japan. (Australia's labor and shipping costs make it an unlikely export base.) But a Pacific Basin strategy appears evident today in General Motors producing cars in Toluca, Mexico. The Toluca cars can compete with the low-cost Japanese imports to the U.S. and other countries. Ford is currently negotiating with Japan's Toyo Kogyo for a 20% interest in that smallish Japanese auto company, which could go far with Ford muscle behind it.

Similarly, the U.S. chemical industry, with its need for large-scale manufacturing, is currently in joint ventures in Japan, waiting until there is more development in other Asian countries before moving in with plant.

When will that be? Says Union Carbide's Eastern Vice Chairman J. Roy Galloway: "Asia is the fastest growth area today and it's going to continue that way. But the whole process would be speeded up by regional grouping of markets." Bank of America's Mulkern is optimistic: "The flow of capital into Southeast Asia is in abeyance until the end of the Vietnam war," he says. "After a suitable settlement, the flow will mushroom."

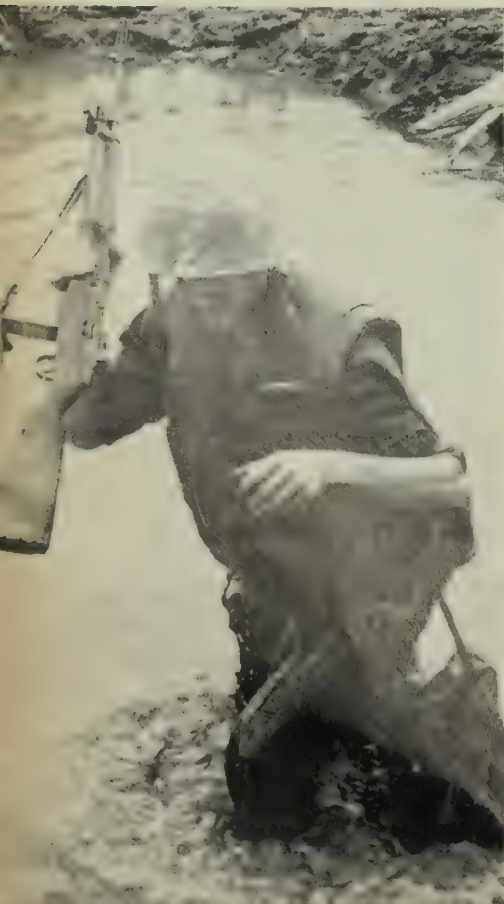
Of profound importance to the area will be energy supply. Indonesia has oil already, more is being discovered offshore. Concessions are being taken up by the oil companies for drilling offshore Thailand, and the East China Seas between Taiwan and Japan may hold an oil bonanza.

Beyond natural resources, Ameri-

can business is presented with opportunity at all ranges of development; so is Japanese business. Pools of low-cost labor in developing countries are already attracting labor-intensive industries from Japan and the U.S.

But more attractive perhaps will be opportunities for U.S. capital-intensive industries. Chemical and other heavy industrial plants are much desired by Asian nations. Just why is explained by H.S. Kartadjoemena, a bright commercial attaché in the Indonesian embassy in Washington. "What we need if we are to develop and remain independent is management training," he says. In Kartadjoemena's view, a chemical plant may not employ a lot of people but it serves two purposes: It trains some men in skills and management and it gives rise to peripheral and support industries, such as construction, parts supply and plastic fabrication. The latter provide the employment.

Kartadjoemena's outlook is interesting because Indonesia, although at present one of the least developed Asian nations, is a focal point of U.S. and Japanese planning. Indonesia's 118 million people make it the second largest country in Asia after Mainland China; it has enormous potential in natural resources. The temptation in the developed countries may be to look at Indonesia as merely a human or natural resources pool. But what the Kartadjoemenas think will be important. Says Bank of America's Mul-



Arms And The Men. Japan's warrior class, the Samurai (right), laid arms aside a century ago and took up the leadership of Japan's emerging industry. The U.S. Marine in Vietnam (left) represents a waning U.S. military presence in Asia, but U.S. business will play a larger role.

kern: "Probably there is no 100% ownership to be had in any developing country. The foreign investor doesn't perhaps have to share initially, but beyond mere percentages it is important that he integrate his investment into the social direction of the country."

Singapore is a case in point. The government of Prime Minister Lee Kuan Yew decided ten years ago that when the British military withdrew, the island's traditional role of free port in Southeast Asia would make its economic and political independence vulnerable and leave it little hope of development. An industrialization pro-

gram was begun with emphasis at first on labor-intensive manufacture. But also, says Economic Development Board Chairman I.F. Tang, "We invested 40% of our gross national product in education in order to prepare our work force for other industry."

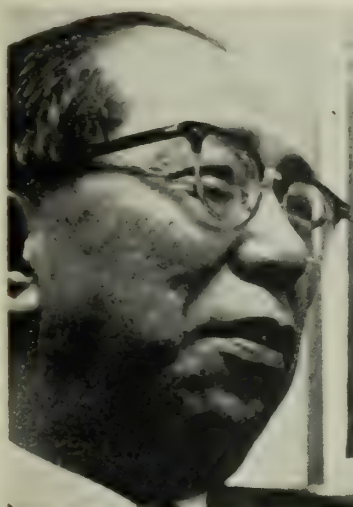
The investment paid off. Singapore today is becoming increasingly selective as to what industry it will allow in. It has its pick of sophisticated electronics manufacture and support industries for the offshore oil exploration in nearby Indonesia. It will have a \$175-million U.S. investment within two years, and it sees itself rivaling or

surpassing Hong Kong as a banking center for the Pacific Basin.

The Pacific Basin has reached the point now where trade around the Pacific is running to some \$100 billion, rivaling the Atlantic; the point where Americans and Japanese increasingly vacation on islands once the romantic retreats of Gauguins and Robert Louis Stevensons, and later the infernos of war; the point where a start has been made toward Tokyo's eventual money market with a \$300-million Asian currency bank in Singapore.

The future of the U.S. lies westward once again. ■

Looking Ahead in Asia



Okita of Japan Economic Research



Many people see recent Japanese economic growth as an eighth wonder of the world. But how do the Japanese see it? For an answer, *Forbes* interviewed Dr. Saburo Okita, president of the highly respected Japan Economic Research Center. Dr. Okita was one of the original planners of the postwar Japanese economy. During 18 years' service with the government's Economic Planning Agency, he became Japan's leading expert on its developing neighbors.

What's your view on the speculation that Japan will have the world's leading economy by the year 2000?

OKITA: I think Herman Kahn said that the 21st century may be the Japanese century. But I say this is a long way off. We cannot continue the present high rate of growth. Probably the 1970s and '80s in terms of GNP, may be the Japanese century. The 21st may be somebody else's century.

Then the growth will slow?

OKITA: There will be a leveling off, a slowing down. When and how is a question, but I think probably when we approach the per capita income level of the United States—around 1980. The present leaders in Japan were born to a work society. They are

so used to hard work that there is a kind of generation gap between the younger and older generations.

Even another decade of such growth has profound implications for Asia. Will Japan alone dominate Asia?

OKITA: If we follow our commitment to have 1% of our total resources flow to the developing countries, this will be a sizable amount, because our GNP will be \$400 billion by 1975. And Japan's share of the imports of Southeast Asian nations sometimes already exceeds 30%. These countries do not like to be too heavily dependent on a single country. They like a diversity of contacts. Thailand is very keen on this and so is Malaysia.

Who is to offset Japan?

OKITA: Both Europe and the United States should also come into Southeast Asia. And Japan should also go into Africa and Latin America. There may be cases of joint participation of U.S., European and Japanese corporations. Such ventures will be highly desirable. It can lead to trouble if someone monopolizes an area. I wonder sometimes if this did not happen in U.S.-Latin American relations.

What advantages can American business bring to such ventures?

OKITA: You have capital and technology. The amount being spent on research and development in the United States is far larger than what is spent in Japan. For many years to come there will be a technological gap between the U.S. and Japan. You know the story of the egg? Until you know how to stand an egg upright, it is difficult. Once you know how, it is easy. So technologically it may be easy to catch up to 99% of the U.S. level but not easy to reach 101%.

In these "many years" ahead, what will be China's role in Asia?

OKITA: Oh, you save the biggest question until last. In terms of economic size, Japan is much larger than China, of course. Even though China's population is seven times that of Japan. But politically China may be more influential, because the Chinese are poor like other Asian nations. In Japan, as in the U.S., the income is getting higher, so sometimes the poorer countries do not like you. It is difficult, but Japan and the U.S. and other developed countries must bring economic prosperity to those other Asian countries without creating internal political polarization. If economic progress results merely in greater disparity in income levels within a country, then there will be social discontent and the political influence from China will be strong.

Who Says the Odd-Lotter Is Wrong?

The odd-lotter is rapidly declining in importance in the stock market. That's too bad, because as his position diminishes, he grows wiser.

HE SOLD in October, November and December 1968 at the top of the market, and he sold through most of 1969 when the market was steadily declining. In April 1970, he began to buy heavily, and he bought still more heavily in May. Then in August and September, he began to sell heavily again.

Who is he? A whizbang mutual fund money manager, a professional trader, a pension fund manager? Hardly. He is that long-despised trader, that reverse indicator, the investor

who's always wrong, the odd-lotter. Today, there are fewer odd-lotter (investors who buy or sell shares in less than round lots of 100) than there were a few years ago, but as the chart suggests, they seem to be shrewder. By a process of natural selection, the odd-lotter has now become, if anything, a leading indicator of market direction.

That belief is held by at least one long-time analyst of odd-lotter behavior, partner Sander Landfield of the odd-lot firm of Carlisle DeCoppet &

Co., which handles virtually all of the odd-lot business transacted on the Big Board. Says Landfield, "The odd-lotter in recent years has made a mockery of the old contrary-opinion theory which had him dead wrong at most crucial turns in the stock market."

It's a whole new investing game today, of course. Since the end of the last decade, the proportion of odd-lot trading to total trading has declined from over one-fifth to around 7% currently. Total trading volume, spurred by institutional buying, has soared more than threefold. The number of odd-lot traders has remained fairly constant. But the kind of person who trades in odd lots has changed.

The affluence of the economy over the last ten years has turned many former odd-lotter into round-lot traders (leading one cynic to suggest that the infallibly wrong odd-lotter still exists, but he now trades a few hundred shares instead of 50). Then too, many odd-lotter have moved into mutual funds and into the lower-priced but more speculative American Stock Exchange. One market technician thinks that the mutual funds now perform the old odd-lot tricks. When fund sales are heaviest, he feels, the market is near some kind of a top, and when they are at an ebb, the market may be near a bottom.

Those who remain in the odd-lot market are long-term investors with limited capital. When the market looks oversold or overbought, they judiciously buy or sell just as they have done in the last two years.

They Want Action

"In April and May," says Landfield, "they bought the volatile glamour stocks ranging from very substantial IBM to stocks like University Computing." This is precisely what the professionals bought, and the prices of many of these stocks have gone up by 50% or more. So, at least so far the odd-lotter have been right.

On the other hand, in recent months they have resumed their long-term pattern of selling large capitalization blue chips, or former blue chips, including General Motors, Sears, Roebuck, du Pont and others. One reason: They feel the future of these companies is limited because of their huge size. Up to now the odd-lotter have again been right, but for how long remains to be seen.

Whether they are sometimes wrong or right is becoming increasingly an academic matter since their proportion of trading continues to dwindle each year. In place of the odd-lot theory, a new market theory is sure to arise, one just as true on occasion and in the long run just as irrelevant. ■



Schooling for Profit

*You've heard of public schools and private schools.
Here's a public school run by a private company.*

PALO ALTO'S (Calif.) Behavioral Research Laboratories (1969 sales: \$4 million) has just become the first publicly held company to operate a public school, Banneker Elementary School of Gary, Ind., which will be run on a guaranteed performance basis. There are future perils even if one succeeds in meeting performance guarantees, and BRL may fall flat on its face. But BRL's Gary contract is one more sign of the increasing participation of private enterprise in public education systems.

Gary, a town that was 40% black as far back as 1960 and is run by a black mayor, Richard G. Hatcher, called in BRL out of desperation as much as anything else. "Seventy-five percent of the kids graduating from this school," says Dr. George Stern, BRL's president, "were a year or more behind the national norms in reading and math." Gary's school board was sufficiently worried to try radical solutions. It did so against objections from traditionalists and the teachers' union.

"The biggest hangup," says Dr. Gordon McAndrew, Gary's superintendent of schools, "is that this program is operating with fewer professional teachers. There's a job security problem. It takes a pretty gutsy school board in a city like this to take on the unions and the staid local people."

Gary's school board contracted for BRL to run 800-student, all-black Banneker for four years. The total cost to Gary will be \$640,000 per year, or \$800 per student, about \$50 per student less than Gary now spends to run the school, and, in terms of results, BRL can hardly do worse than Gary has done. For its part, BRL has guaranteed to raise each student's achievement scores, as measured by an outside firm, at least to national averages within three years. Penalty for failure: refund of payments amounting to \$2,400 for each student not at national average.

This is not the first performance guarantee by private industry trying to move into public education; the first was implemented about a year ago by Dorsett Educational Systems teaching reading and mathematics in Texarkana, Ark. Most recently, the Office of Economic Opportunity appropriated \$6.5 million to six companies that are guaranteeing performance of their elementary education systems in 21 school districts throughout the country in a series of experimental programs. But the Gary contract represents the first time a private company has laid its program on the line to operate a complete school—to provide the curriculum, administration and supervise the faculty. Chances are it will not be the last.

Even if BRL is successful in meeting its guarantees, there is a long and bumpy road ahead for business in public education. Like its competitors' systems, BRL's involve programmed instruction; and like teaching machines, programmed instruction partially replaces teachers. That may be good news for the taxpayer, considering that salaries comprise 87% of education costs, but it hardly brings cheers from the increasingly militant teachers' unions. Indiana's United Federation of Teachers, for example, fought the Gary program.

But the private companies have one big thing going for them: the failure of the traditional educational system to do the job, particularly for black students. ■



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The Money Men

"It's the Individual Investment That Counts"

WHENEVER INVESTORS begin complaining about how much money they've lost in the stock market, or whenever the New York Stock Exchange begins boasting about how many millions have how many billions invested in common stocks, we like to stop and remind ourselves where Americans really invest their dough. Obviously, they invest in real estate.

By almost any measure, real estate leads the pack as an investment medium. First of all there are those 40 million to 45 million people who own their own homes, worth some \$650 billion. Then there are the people who hold mortgages or rent out property—additional millions, though no one has been able to count them. It's a fragmented investment medium, the whole real estate field: millions of investors, more millions of investments. Yet nobody has ever been completely successful in finding a way to split up a piece of real estate so that units of ownership and control could be sold like shares of stock.

That is what made us particularly glad for a chance to talk with two of the real authorities in a field where there are plenty of pretenders, two men who have probably come as close as anybody to devising a system that would allow real estate to be bought and sold in little pieces by a wide variety of investors. They are a 65-year-old New York real estate and tax lawyer named Lawrence A. Wien and his 60-year-old sidekick Harry Helmsley, who owns the real estate management firm of Helmsley-Spear & Co. The two of them have been major powers in real estate for at least two decades, and together they own and/or control and/or manage some \$2.5 billion worth of properties.

But we were interested less in their wealth than in their creativity. Larry Wien is acknowledged by his peers to be the pioneer in the area of real estate syndication—a setup under which a number of smaller investors become limited partners in a real estate venture, sharing (af-



Real estate and tax lawyer Wien

ter management fees, operating charges and certain other costs) in the profits, depreciation throwoff and tax deductions of the venture.

"I thought up the idea in the late 1940s," says Wien, a trim, quick man who moves confidently around his opulently traditional 48th-floor office overlooking New York's Grand Central Station. "What I wanted to create was a vehicle that could achieve the yield objective of, say, 12% and at the same time avoid the corporate income tax. I analyzed the tax statutes, and realized that if I could create a partnership that was not engaged in business but was merely receiving a fixed return on capital investment through a conduit, then the investor would only have to pay an individual income tax. In addition, I could save half or more of his return from any taxation because that part would be a return of capital."

The Internal Revenue Service took a lot of argument before it agreed informally to recognize the concept of syndication. But finally it did so, and Wien started on a series of syndication ventures that culminated in 1961 in his purchase, with Helmsley, of the Empire State Building from Colonel Henry R. Crown for \$85 million. Some 3,000 eager investors snapped up the participations in what still ranks as the largest syndication ever offered.

Just about the time Wien started syndicating in the early Fifties, Helmsley had come into the pic-

ture by selling Wien, as broker, a two-story building at 67th & Columbus Avenue for \$165,000. The two men could hardly be more different from each other: Wien the Columbia Law School graduate; Helmsley the big, bluff bundle of energy who quit after high school. But Wien liked Helmsley's style and more and more began to rely on him to find and manage real estate properties. Their joint New York ventures include the Lincoln Building (where both Wien and Helmsley have their offices), 120 Broadway, 200 Fifth Avenue and the Plaza and Taft hotels.

Interestingly, however, Wien and Helmsley stopped public syndication for nearly a decade after the Empire State Building deal. Why? Says Wien: "During the Fifties the stock market was booming, and toward the end you didn't have to have good merchandise to sell in the marketplace. Some inexperienced sharpshooters formed real estate syndications, went public and eventually ran into a lot of difficulties." So for most of the Sixties the Wien-Helmsley partnership has offered only private syndications, with participation limited to 15 or 20 wealthy investors.

Until recently, that is. Last December Harry Helmsley, working with another partner, named Irving Schneider, sold to the public through White, Weld & Co. an \$82-million package of 22 properties owned by Investment Properties Associates. And Larry Wien himself soon expects to bring out



Helmsley of Helmsley-Spear

a \$12.8-million public syndication.

Some of Helmsley's own deals illustrate the kind of long view that both men think a big-time real estate operator must have to be successful. Two years ago he and five other investors paid Metropolitan Life Insurance Co. \$90 million for the 12,000-unit Parkchester apartment complex in the Bronx, which was a project regarded by many in the business as a white elephant because of its 6% rent-controlled return.

"I liked the risk at that price," Helmsley explains, a faint grin flickering over his face. "I figured that if I could get it for \$90 million when it was worth close to \$300 million, then I wasn't likely to get too badly hurt. And there are things I can do to improve the return that an insurance company can't"—like establishing a new depreciation base, for example. Or raising the rents more vigorously than an insurance company would care to do.

What about tenants who are hurt by higher rents, who can't afford to pay an economic rent? Says Larry Wien: "I think there is going to be a partial socialization of housing in critical areas, either through direct subsidies to people so they can pay the going market rate or subsidies for the building so that it's worthwhile to put it up."

For men who have made multimillions in real estate, Wien and Helmsley have a strange attitude toward investing in land. They are against it. Explaining why, Helmsley draws a vertical line in the air

with his finger: "I only understand the yield at the bottom of the line, a property where I can reasonably figure out a return on the investment. Raw land? I may have to wait 20 years to know it isn't worth very much. This business about scarcity of land, how it must go up, is a lot of baloney. It's true some people made a lot of money buying some properties around the city when it was growing out. Not any more. Look, if you fly or ride across the country, you realize there is an awful lot of unused livable land still left."

Wien agrees. Says he, "If you want to buy and sell, you may make a profit, but that is just another form of speculating on a commodity—shooting a crap game with real estate. Some people go into real estate to sell a product, to improve and develop the land, like Boise Cascade, and that makes some sense over the long run. But those who are just buying land on speculation to turn it over to someone else at higher prices. . . ."

We asked Wien what he thought about all the big Wall Street firms moving into real estate. His answer: Not much. Said Wien, "There just aren't that many people around with competence in the field of real estate. Yet here they are by the dozens making deals. How many of them really know much about real estate?"

As far as Wall Street's participation in real estate is concerned, both men take more seriously the real estate investment trusts, or

REITs. Most of today's REITs, says Helmsley, "are primarily financing vehicles. They make short-term construction loans at 12% to 13%, which can be quite good if you know what you're doing."

Helmsley is on the board of directors of the Chase Manhattan Real Estate Trust. "Their timing was good," he says, "when they came out with a \$116-million offering earlier this year. Mutual of New York, on the other hand, came out about a year and a half ago and invested significant portions of its funds at 8.5% long term, and it is doing poorly in the market as a result. Chase is investing at shorter and higher returns, and has leveraged itself up near \$400 million in investments. With money costing 8.5% and earning 12%, the spread after expenses is about 3%. With leverage of over 3 to 1, you can get your return up pretty high overall to over 13% to 14%." But Helmsley is quick to add that this level of return may not be sustainable for long.

Larry Wien, on the other hand, is downright distrustful of mixing real estate and the stock market. "I must be old-fashioned," he says, "but I thought you invested in stocks for the long run the way you do in real estate. But the way speculators have been trying to make a fast profit and then sell out to some other fool at higher prices scares me. Worse still, the institutions, pensions, endowments and banks are often doing the same thing, taking equity positions and the like. I hope that it came to an end with the long decline in the stock market. But I'm not sure that it won't start up again with the market recovering."

We couldn't help reflecting that part of the reason for Wien's dour view might be his displeasure over the same trend in real estate, the moneylenders' growing insistence on equity participation. Wien has another name for it: "The insurance companies and a number of banks have been taking several pounds of flesh." But we listened more respectfully when he added, "Many of the institutions will lend the builder 100% or even 110% of the mortgage just so they can get the extra goodies. That kind of investing could be dangerous, because those properties may have been overvalued in today's market."

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The Money Men

"You are probably too young," Larry Wien went on, "to remember the mortgage and title trust companies of the 1920s that went bust in the 1930s, but they too were lending, at 100% and 110% of the mortgage and were using gimmicks like group participation certificates. Many investors don't understand the real estate business and don't know what they are getting into. The average investor has been disenchanted with the stock market and has been hurt. Now he wants to make it up in real estate, which is supposed to be a good inflation hedge. Of course it is; but if you buy at the wrong price and the investment goes sour, it won't do you any good. It's the individual investment that counts."

Says Wien: "Good individual properties aren't as easy to find as it may sound, not one good enough to hold up over a long period of time." A case in point is what happened in the Helmsley-Wien-syndicated Empire State Building. It has been threatened, like all older office buildings, by two recent developments. One is the prospective glut in Manhattan office space, growing in part out of the World Trade Center, the Port of New York Authority's billion-dollar boondoggle. The other is today's record interest rates, which made the participation's 9% return a good deal less competitive than it had been in the early Sixties.

So in 1967, the partners say, they raised the return to 11.5%. They gave up trying to defeat the construction of the twin 110-story towers and began figuring out ways of squeezing more profit out of the Empire State. "The difference," says Wien, "comes out of our operating profit and we call it our inflation bonus." His point is this: Not many real estate investments are sound enough to contain this much of a cushion. Unless they are, they may not be able to stand the test of time.

Which brings us back to the title of this piece, and makes us reflect how often our conversations with successful Money Men seem to end up on a similar note. "Sure, this form of investing is a good one," they say, and then add, "providing you do it right." It calls to mind the old saying about the most important thing in making a chicken pie: First, get a chicken. ■

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Experience Is the Best Teacher

Hidden behind Heublein's great success is one glaring mistake. But the lesson it teaches may more than make up for the current loss in growth and profits.

HARTFORD, CONN.'s Heublein, Inc., enjoys a reputation for superlative marketing skill. It is richly deserved. With its Smirnoff brand, Heublein has created a booming U.S. vodka market out of whole cloth. It literally invented the increasingly popular premixed canned and bottled cocktail business. Thanks to these and other marketing triumphs, and aided by a few acquisitions, Heublein has lifted sales from \$103 million to \$583 million over the past ten years, raised profits from 37 cents to \$1.45 per share, and averaged a 38% annual return on its stockholders' equity. Those figures were good enough to rank Heublein among the top ten performers in all of U.S. industry in *FORBES'* latest Annual Survey of American Business.

Yet amid these many and glittering successes is one very considerable mistake—the Theodore Hamm Brewing Co., Heublein's largest acquisition. Heublein's Midas touch has failed to produce anything close to the hoped-for results from Hamm's. It was acquired in the euphoric days of the mid-Sixties when Heublein, a late-blooming company that traces its roots back into the 19th century, was finally tasting its first real success in vodka and prepared cocktails. The ninth-largest U.S. brewer with around \$155 million of sales concentrated in the Midwest and West, Hamm's was actually a bit larger than Heublein itself. The dream was that Heublein, with its marketing savvy, could build Hamm's into a national brand like Schlitz and Budweiser.

Unshakable Realities

Five years later, the dream of going national has been shattered by the realities of established distribution set-ups and unshakable brand loyalties in the new markets Hamm's planned to enter. Antitrust considerations have precluded buying into other beer markets. Today Hamm's still is sold in only 26 states, mainly in the Midwest.

Heublein has also discovered that the beer business is extremely capital-intensive, with a high break-even point on profits. So instead of plowing money mostly into marketing and new product development, Heublein has had to invest heavily in bricks and mortar, like its huge new St. Paul can-making plant. Heublein has not lost a lot of money on Hamm's so far, but it hasn't made much either, and the growth has been far less than expected. About the nicest thing President



Wine was a natural addition to Heublein's line of beverages, says President Stuart Watson. "It's a social drink and people drink more for sociability than effect nowadays. They also switch from drink to drink; so by adding wine to our other lines we can accommodate them."

Stuart D. Watson can find to say about Hamm's—after pointing out that he had nothing to do with its acquisition—is that, "it provides us with a fairly predictable base of sales."

Obviously Hamm's hasn't hurt Heublein badly. That's a mighty tribute to smart management and the strength of its vodka and prepared cocktail businesses, plus others it has gotten into more recently—wine, whiskey, rum, brandy, cordials and specialty foods. But the Hamm's failure makes clear that Heublein's marketing skill alone is not enough to guarantee that the company will continue to grow and profit at its recent rate.

Stuart Watson thinks he understands what went wrong at Hamm's. "The key, I think, is that the beer business is not very susceptible to change," he says. "Heublein is a company that has grown and prospered by getting into markets where there was plenty of change to exploit."

Certainly Heublein's successes in both vodka and prepared cocktails were made possible by changing consumer habits in the late Fifties and early Sixties. An increasingly affluent body of consumers, freed at last from the burden of a depression and two successive wars, was ripe to try a skillfully promoted new beverage like vodka. The shift in consumer preferences toward convenience items in the Sixties was just what the doctor ordered for its canned and bottled cocktails. Heublein had been in vodka since 1939 and premixed cocktails since the late 1800s, but didn't do well in either until the winds of change began to blow in its direction.

Wine Kick

Today Heublein is trying to exploit other changes in consumers' tastes by getting into wine in a big way. In 1968 it bought San Francisco's United Vintners, Inc., the marketing arm of a large grape growers' cooperative that owns two of California's best wine brands: the high-volume, popular-priced Italian Swiss Colony and the much smaller, top-quality Inglenook. It also acquired Beaulieu Vineyards, another fine California vintner.

Several things attracted Heublein to the wine business. One is that consumption has been growing steadily (from 150 million gallons to 250 million since 1955). Another is the relatively low per capita consumption figures (less than 2 gallons a year *vs.* 17 for beer) which augur well for great-

er future wine growth. Still another is that drinkers between 25 and 35, who are responsible for most of the growth in wine consumption, are showing a marked shift in preference away from traditional wine varieties toward brand-new, lighter-bodied, often slightly flavored products like UV's Cold Duck and Bali Hai, for example, which it did not even make a few years ago. Thanks to this shift, Heublein last year sold 510,000 cases of Cold Duck (a champagne-sparkling burgundy combination) and over 2 million cases of Bali Hai (a fruit-flavored wine).

This kind of opportunity already makes the acquisition of United Vintners, which is almost as large as Hamm's with over \$100 million in sales, a far more successful transaction than the move into beer. To be sure, United Vintners plays second fiddle to the E. & J. Gallo Winery in sales of the lighter, flavored wines. "We're playing catch-up ball," says Watson. But the Cold Duck and Bali Hai successes reinforce his opinion that Heublein, if it is to maintain its rapid growth and high profits, must avoid the more stable markets and enter the riskier but changing fields.

New Worlds

With that in mind Watson is steering clear of the two biggest beverage markets: bourbon whiskey and soft drinks. Both may be susceptible to well-promoted product changes, such as the new light American whiskey, which relaxed government regulations will permit bourbon makers to begin selling in 1972. But not even an outsider of Heublein's talents could gain enough market share in either business to justify the expense of trying.

For now, Watson is trying to keep up Heublein's rapid growth by bringing out new variations on some of the beverages already in the fold. Like Cold Duck and Bali Hai. Like lower proof canned cocktails. And even like a new flavored beer, which Heublein is currently engaged in test-marketing in both slightly tart and slightly sweet variations.

Ultimately, though, Heublein will have to find new worlds to conquer within the packaged consumer goods field. That explains why Watson tried, unsuccessfully, to put together a merger with Liggett & Myers last spring. L&M, which has reduced its proportion of cigarette volume considerably by adding things like J&B Scotch and Alpo dog food, wasn't interested. So Watson is looking elsewhere. Where he moves only time will tell. But it's a safe bet it will not be into a business that promises to be as mature and inflexible as beer. ■

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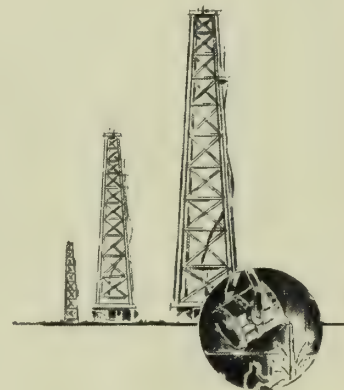
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What? Pot?

Not Laredo.

LOUISVILLE's Brown & Williamson Tobacco Co., maker of Kool, Viceroy and Raleigh cigarettes, has a spanking new product. It's not a cigarette, exactly. It's a cigarette-production process, a machine to roll your own with a filter attached. The kit—machine, tobacco, cigarette papers, filters and packages—retails for \$2 or so and is called Laredo, after a small southwestern city on the border between Texas and Mexico.

Sales of the new machine, like those of a well-known consumer product grown in Mexico, are spreading like a grass fire these days. But B&W, a subsidiary of British-American Tobacco Co. Ltd., officially sees no connection. "It is not only our marketing intention but also our moral conviction that the Laredo machine be used only with Laredo tobacco," says a company statement. "Specifically we cannot relate the use of marijuana to the Laredo machine." Says a B&W spokesman: "We don't have any plans remotely to do with marijuana."

B&W officials maintain that Laredo's runaway success, like that of similar devices during the Depression and World War II, lies more in economics than in cultural revolution. Laredo users can make a pack of cigarettes for 20 cents *vs.* a 50-to-60 cent tab for tailor-made cigarettes in many



states. Laredo's sales have outrun B&W's production capacity, but pot's not the reason, B&W men say. At \$15 an ounce and up, the amount of marijuana needed to fill a cigarette would make Laredo an extravagance, they say. And who'd want a filter?

The fastidious middle-class "weekend" smoker, that's who. In that regard, too, Laredo's prerolled paper tube does away with the need for human saliva as adhesive. And even with the expense of marijuana, the cost for a weekend pot party is not much more than that of a couple of good bottles of whiskey. The truth is, moreover, that marijuana is gaining more increasing acceptance, and sentiment favoring its legalization is rising. Who knows how much longer any tobacco company can ignore the growth potential of such a market. ■



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Maurice Utrillo

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"There's Brass in That Glass"

After a century and a half, the Pilks are letting the public join them as Lords of the Pilkington Manor. It's an old-fashioned-looking but remarkably profitable place.

BRITAIN'S Pilkington Brothers Ltd. is a company with one foot in the late 20th century and the other in the early 19th. Technologically, Pilkington is the most advanced glassmaker in the world. By virtue of that technology and the patents that stem from it, it's the dictator of the industry, and all of the world's largest glassmakers, companies like PPG Industries, Libbey-Owens-Ford and Saint-Gobain of France, pay it tribute.

Technology aside, Pilkington is something of a 19th century curiosity. The first Pilkington, William, joined the company 144 years ago, and the Pilkingtons—hundreds of them by now—still own it and run it like a private fiefdom. Sixty-five-year-old Lord Pilkington (who rides to work on a bicycle) is the fourth of his line to serve as chairman; and the inhabi-

tants of St. Helens, the city in Lancashire where the company is headquartered, refer to him as "the Lord of the Manor." The family is called "the Pilks."

This anomaly will soon end. Pilkington at last is going public. Nobody except the Pilks knows how many of the family's 11 million shares will be put on the market or how much they will ask for them. But most estimates start at \$250 million, and nobody in the City (London's financial community) expects to have any difficulty in moving them, even in today's depressed markets.

Money Machine

The fact is that Pilkington Brothers is probably the most profitable company in its business. With sales of only \$280 million, Pilkington may be a

dwarf beside PPG (\$1.1 billion), Saint-Gobain of France (\$816 million) and Libbey-Owens-Ford (\$448 million). Nonetheless, in a normal year, its profit margins are the best in the industry, and even last year, when strikes caused a 40% decline in net, Pilkington still managed to earn \$20 million on operations as compared with \$56 million for strike-free PPG, \$40 million for L-O-F and \$29 million for Saint-Gobain.

And that isn't all. In addition, Pilkington gets hefty royalties from its patents on the so-called float process for making flat glass, which involves floating the molten glass on a surface of molten tin. This process was developed in 1959 by Lord Pilkington's cousin, Alastair, a mechanical engineer, who says he got the idea while washing dishes for his wife. The



Company Town. Pilkington's 33,000 workers in more than a dozen countries are not only well paid, they are well cared for. Its headquarters, St. Helens (population: 100,000), is a company town. With its grimy red-brick terraced homes, Victorian pubs and fish-and-chip houses, it could serve as a set for a movie about the Industrial Revolution. Even so, the Pilkingtons make it possible to buy a house in midtown for as little as \$2,500. A full

third of the workers in St. Helens work for Pilkington. Aside from wages, they receive all kinds of little benefits, ranging from free vegetable seeds for their gardens to sacks of coal to warm their homes in winter. Pilkington even pays the TV license fees for its pensioners. Which is why last year's seven-week strike was a shocker. In Pilkington's private welfare state, strikes had always been something that happened to other companies.



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Show me an important man
in business
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FORBES Magazine

and I'll show you a man who thinks running boards
are coming back.

Forbes: capitalist tool

float process turns out flat glass of plate glass quality, yet it requires only two-thirds as much in capital investment and it cuts operating costs by at least 25%.

Pilkington could, of course, have exploited the patents itself, but that would have required an enormous capital investment for expansion of production facilities, far more than a family-held company possibly could raise. Pilkington chose to license the patents to its competitors instead—but under rigid conditions. The licenses run for only 16 years. In addition to a healthy down payment, Pilkington demands a royalty on every square inch of glass the licensees produce by the float process. It decides where they can market the glass (for example, Ford Motor Co., which has its own glass-making facilities, can sell only a limited amount of glass in Canada), and retains for itself the growth markets. It has laid down this law even to Soviet Russia.

The licensees also must share with Pilkington any improvements that they make in the float glass process, which is one good reason why Pilkington promises to remain the most technologically advanced float glass maker in the world.

Last year, the royalties poured \$15 million into Pilkington's coffers, and, says Lord Pilkington, "Licensing income is not yet at its peak. There will be many more float plants built in several countries." By 1980 Pilkington expects to have taken in a total of \$350 million in royalties—and all this from a process that cost a mere \$17 million to develop.

Come What May

The royalties have another signal advantage. They are, in Lord Pilkington's words, "a nontrading stabilizer"—that is, no matter how much Pilkington's own sales may fall off, they keep coming. That is why, even though operating profits were down 40%, last year was the second-best year in the company's history.

It is the need for capital that has forced Pilkington to move into the 20th century by going public. The market for float glass is a vast and expanding one. Not only is float driving out regular plate glass; with every technological advance, the cost of making it goes down, so that it may eventually replace sheet or window glass. The Pilks just don't have the capital necessary to answer the demands of the market.

In Lancashire, money is called "brass." In the City, as they wait for the Pilks to put their stock on the market, the brokers are saying: "There's brass in that glass." ■

"Land, Money or Oil"

Meet Charter Co., a little company with big ideas. Very big ideas.

AT FIRST GLANCE, Florida's tiny 11-year-old Charter Co. appears hardly worth a second glance. A miscellany of banking and other operations, Charter didn't make a profit from 1963 through 1969, it posted a working capital deficit of \$1 million in 1968, and it still had negative retained earnings in 1969. Yet Charter, with but \$33 million in assets, is now completing a \$71-million deal to buy Signal Cos.' 875 southeastern gas stations, plus a refinery and important overseas oil wells. What's more, Charter barely missed winning control of more than \$2 billion worth of assets a few months earlier. However improbable this sounds, it only shows that there's more to Charter Co. and 43-year-old Chairman and President Raymond K. Mason than meets the eye.

Charter began in Jacksonville in 1959 as a small collection of real estate companies, and in 1963 Mason, then head of a family-owned mortgage banking business, bought about 30% of Charter's stock and took over. Under Mason, Charter moved rapidly into commercial and mortgage banking, and then even into gasoline retailing under the Dixie-Vim brand. By 1969 the company had a net of \$1.3 million, or 51 cents a share, including a 17-cent tax credit. Charter is considerably more substantial than it seems, however. Through its banking

interests (which include 99% of the \$49-million Jacksonville National Bank and 20%-plus of Charter Bankshares Corp., an eight-bank holding company), Charter controls a minor financial empire with assets of \$142 million—four times the "consolidated" \$33 million shown on Charter's books.

Too Big a Bite

Even so, Charter's first venture into the big leagues of business was bold. While in Los Angeles arranging the Signal deal, Mason met Occidental Petroleum's wily boss, Dr. Armand Hammer. In short order merger negotiations were under way with Oxy, and the Signal deal was temporarily shelved. If the Oxy merger had gone through, Mason would have emerged as vice chairman and an heir apparent to the 72-year-old Hammer.

They would have made quite a team, for both men have the political savvy needed in the oil business. At Oxy, former Postmaster General W. Marvin Watson heads the international subsidiary and his vice president is former Montana Governor Tim M. Babcock. At Charter, Mason's close friend and, until his recent resignation, a director of Charter, is Maryland Senator Joseph D. Tydings.

But the merger was doomed from the outset. "We thought of it," recalls one Charter executive with a chuckle,

"more as a Charter takeover of Oxy than the other way around." Apparently so did Oxy's board, which understandably had difficulty swallowing the idea. After five months of talks, the deal collapsed.

Though a lesser deal, the Signal acquisition is still a coup for Charter. Granted, it includes 375 unprofitable Hancock stations in Texas and a Houston refinery. But it also involves some valuable foreign interests, Signal's 50% of the Billups Western and Super-Test chains, both comprising 250 stations and both highly profitable. Charter paid for all this with a package of cash (32%), debt (50%) and preferred stock. Even at \$71 million, Mason is probably getting a bargain, for Signal clearly wants out of gasoline marketing (*see box*).

Of course, there are problems. Charter plans the costly change of all the Signal stations to a single brand. Charter's own Dixie-Vim chain has no credit-card system, whereas the acquired stations do. But a credit-card system is a must today, and though Signal has agreed to carry the burden another year, that's another upcoming expense for Charter.

Where will Charter go from here? One possibility: more gas stations. Since the news of the Signal deal, Charter has been deluged with offers, even including some from majors. Mason is mum on his future moves, but it is clear that he is ambitious: "I'll flirt with any girl, but I don't flirt with a business opportunity that doesn't fit into the three categories we're in: land, money or oil." ■

Smaller Signal

LIKE so many conglomerates, Los Angeles-based Signal Cos. has been busy selling off some of its assets of late: more than \$200 million worth, in fact, over the last three years. In 1968 Signal sold its entire European oil marketing arm for more than \$100 million. Earlier this year it sold its one-third ownership in a Kuwait oil company for \$18.5 million, and its 53% interests in The Arizona Bank and Allison Steel Mfg. Co. for about the same amount. Most recently its southeastern gasoline marketing network and other oil properties went to Charter Co. (*see story*) for \$71 million, and Signal undoubtedly also wants to sell its western service stations and even some of its real estate holdings.

Was there any special significance to the housecleaning? Did it portend major Signal moves elsewhere? Explains Signal President



Shumway of Signal Cos.

Forrest N. Shumway: "Very simply, we had a great deal of capital tied up in those endeavors, and we were not getting the return we think we can get in our other areas." Then, too, the most recent decisions to sell were influenced by a working capital bind. Unlike most conglomerates, however, Signal was not primarily undoing the mistakes of its conglomeration. The oil properties that it was shedding were all part of its original business.

What's left? Still a sizable \$1.4 billion in assets: Signal Oil & Gas, which is concentrating on exploration and production; Garrett Corp., a major maker of gas turbines and aircraft engines; and Mack Trucks, a heavy-truck builder that is currently the company's most profitable operation. But without the deadwood, Shumway believes the remaining Signal operations will now be leaner and stronger.

Faces Behind the Figures

Too Old for the Campus

VERNON R. ALDEN always wanted to be a university president. After a succession of posts at Brown, Northwestern and Harvard Business School, he got his big break: In 1962, at age 38, he was appointed president of 20,000-student Ohio University.

But like many another university head these days, Alden found campus life a bit more turbulent than he liked. So last year Alden quit his job at Ohio, saying, "I think the problems at universities these days lend themselves to solution by younger men."

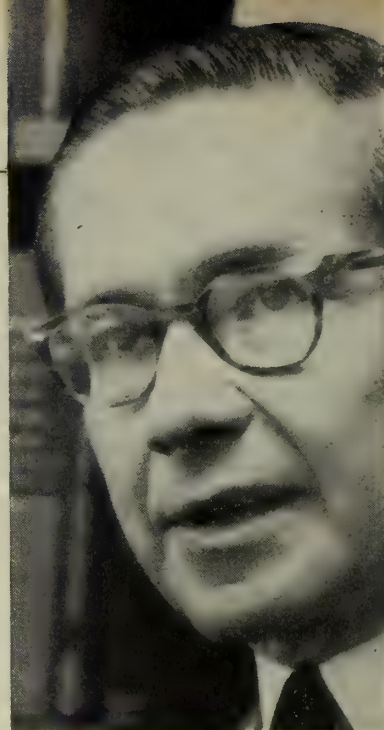
Now Alden has another job, as board chairman at The Boston Co., an outgrowth of Boston Safe Deposit & Trust Co. Five years ago Boston Trust, as it was known, was a relic of Brahmin Boston. Its sole business was managing trust accounts, for which it had to compete against big banks from all over the U.S. that could offer a full range of banking services. "Functionally and geographically we were not prepared to survive in the 1970s," says Alden, a Boston Trust director since 1955.

In 1965 55-year-old William Wolbach took over as president and quickly formed a one-bank holding company—The Boston Co.—with the Boston Trust as its main subsidiary. The old trust company still

accounts for \$3 billion of the \$5-billion total assets under management. But it yields the limelight to some 20 other affiliates, including the Johnston Mutual Fund, the Boston Consulting Group (management consulting) and economist Pierre Rinfret's Rinfret-Boston Associates. Others are in investment counseling, ranging from securities to real estate to oil and gas and pension fund management.

Alden, with hundreds of high-level corporate contacts from years of university fund-raising, is working as an upper-echelon salesman for The Boston Co. Its brand-new pension fund management company wants to get \$1 billion of accounts by 1975, and Alden is opening some important corporate doors. He has also helped assemble a blue-ribbon board. Why? Because The Boston Co. hopes soon to list its thinly traded shares on a major exchange. Just now The Boston Co. has two classes of stock: "A" shares, which carry ten votes apiece and are held by only a few hundred stockholders, and "B" shares, which carry only one vote and are owned by close to 1,500 stockholders. The latter are traded (infrequently) over the counter. Currently they sell for around 25, down from a high last spring of about 32. The plan is to consolidate the two classes.

The company has only about



Alden of The Boston Co.

\$20 million in actual revenues from management fees and interest, and just over \$2 million in net profits. Profits have been held back somewhat by investment losses, mainly on bonds owned by the trust company. But when operating earnings have been down, as in 1967, the company has proved agile enough to funnel through timely capital gains in order to keep its profit trend on the uptick. For Alden it's a far cry from the university career he envisioned, but if he's a good enough salesman the pay could be much better. ■

Playing Games

"WE'RE like a game of scrabble, where you move out and tie in the letters in all the legs of the game." That's how Donald A. Gaudion, 57, president of Rochester's Sybron Corp., describes his game plan for putting the pieces of his chemical-medical conglomerate together to form a growth company.

President since 1959, Gaudion built Sybron in two stages, starting with Pfaudler Permutit, maker of chemical process and water treating equipment. Stage one: merger in 1965 with medical-and-dental equipment maker Ritter Corp. Stage two: merger in 1968 with Taylor Instrument Co., an industrial instrument manufacturer. Objective: diversification into noncyclical, good-growth industries. And that is as far as Gaudion plans to go with diversification. Sybron's

subsequent acquisitions—11 in the past two years—have been what Gaudion calls "niche filling," that is, companies in the same industries Sybron is already in acquired to strengthen Sybron's basic structure. With 67% of its sales in health products and instruments, Sybron has everything Wall Street likes to see in a growth company.

Except results. Since 1967, earnings have inched up just 7% (to \$16.7 million) on an 11.3% sales gain (to \$300 million). Diversification may have eased Sybron's cycles, but it has other problems now, like softening demand in the health and laboratory markets from cuts in government medical spending. So Gaudion may not be able to get Sybron off its earnings plateau before 1972. But at least he can reflect that things might be worse: In the early Sixties, a 4% sales dip brought a 28% drop in net. ■



Gaudion of Sybron

Bargain Hunter

IT'S HARD to say whether 54-year-old Stuart Davis deserves pity or praise. As chairman of \$2.2-billion (assets) Great Western Financial Corp., he has just agreed to buy his ailing Los Angeles rival, \$1.1-billion (assets) LFC Financial Corp. The move makes GW the nation's second-largest S&L (first: \$3.4-billion Home Savings & Loan). But with losses totaling \$20 million in the last 2½ years, LFC hardly seems a prize. "The operation," says Davis, "will show profit in one or two years." Two well-known predecessors thought so too.

Back in 1959, while Davis was still president of a San Francisco S&L, the late Bart Lytton was busy putting together Lytton Financial Corp., which became the flagship of LFC Financial. Lytton was a flamboyant promoter who shocked the S&L industry with come-ons for new accounts. Lytton Financial zoomed from \$72 million to \$618 million in just five years.

But Lytton was better at promotion than at managing money. In 1965 he took a \$2-million loss



Davis of Great Western Financial

on bad investments, and by late 1967 it became clear he wouldn't be able to repay \$16.5-million in outstanding notes. In 1968, after three years of losses, creditors installed Charles A. Wellman, a respected 25-year S&L veteran, as chief executive. But Wellman died unexpectedly two years later, before he could salvage LFC, and his

successor, George A. Edwards, didn't have time to repair the damage. By 1969 LFC was paying 7.75% on borrowed funds, which pushed costs over the 6.7% return on loans and was the final blow. "This," Davis points out, "made their operation obviously less than profitable." In May 1970, the Federal Home Loan Bank Board, LFC's largest single creditor, encouraged a merger and later picked GW as the most desirable candidate.

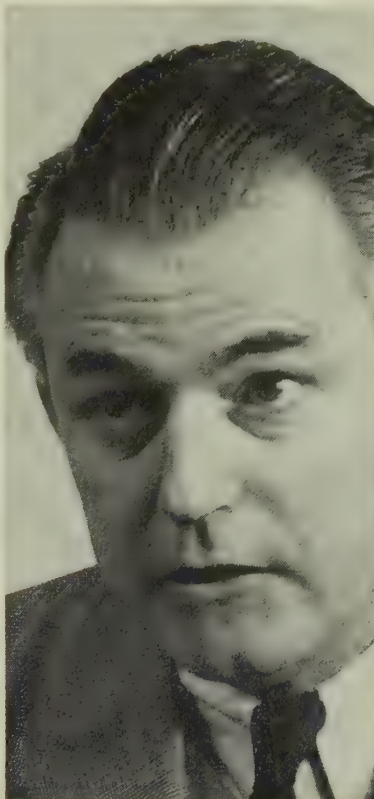
Why did Davis take on LFC? Clearly, he got a good deal. He persuaded the FHLB to rewrite LFC's \$310 million of FHLB 7.75% 2½-year notes into a 5% note payable over the next ten years. Further, GW issued shares for LFC worth only \$35 million, almost \$6 million less than LFC's recent market value of \$41 million. And GW picks up a tax-loss carry-forward estimated at \$55 million.

Though Davis hasn't the stature of a Wellman or the notoriety of a Bart Lytton, he has already turned once-troubled GW into a sound and profitable organization. His low-keyed, businesslike style may be just what LFC needs. ■

Man for All Seasons

FOR DECADES the strategy of big (\$615-million revenues) Pacific Lighting Corp. has been to ride the explosive growth of Southern California and blame the weather when earnings dipped. The weather, the company maintains, has been unseasonably warm in eight of the last ten years—though a run like that might seem to constitute the rule rather than the exception. But at least it lent urgency to President Paul A. Miller's efforts to diversify outside the gas business.

Miller, a 46-year-old Harvard graduate whose father and grandfather preceded him as Pacific Lighting bosses, has other reasons for spreading out. Pacific Lighting has 95%-97% of the space and hot-water heating and 80% of the cooking market in its 12-county South California service area (everything except San Diego) so that the opportunity to grow through increased market share is limited. On top of this, Southern California itself has virtually stopped growing, at least by its former exuberant standards. "Until the last five or ten years,"



Miller of Pacific Lighting

says Miller, "California, and therefore utilities in California, were growth situations. But for the next 15 or 20 years, the projected population growth is 2.5% to 3% a year. No company wants to be restricted to growth like that." So Miller, since he took charge in late 1968, has bought—of all things—eight real estate developers (three in California and five in Hawaii) and joined a consortium looking for oil and gas in Alaska and Canada.

Although some 10% of this year's earnings will come from nongas operations vs. almost nothing last year, Miller disclaims any aim to turn Pacific Lighting into a conglomerate. "We will still be primarily a gas distribution system with nonutility earnings," he says. And even at 10%, this year's nongas earnings will probably not lift total net appreciably above last year's \$2.01 per share, which at that was below the level of four of the five preceding years. Why? Partly because Pacific Lighting paid for its recent acquisitions in stock and partly because—you guessed it—last winter in Southern California was another warm one. ■

ROUGH SAILING FOR THE CAPTAINS OF INDUSTRY

**WHO DID HOW WELL
HOW BADLY
RELATIVE TO RELATIVE COMPANIES
IN 1970?
SINCE 1965?**

**THE FORBES
23RD ANNUAL REPORT
ON AMERICAN INDUSTRY**

DUE JANUARY 1, 1971

Anybody can ride the crest of the wave when times are good. It's how corporations handle themselves in rough weather that counts. Like *this* year, for instance. How did America's leading corporations perform in the down-cycle of 1970? The FORBES 23rd Annual Report on American Industry will give you the answers—on January 1, 1971.

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But there's more to consider. How a company performs over a one-year time span—*any* one-year time span—isn't completely indicative. The record over the long run must be examined. So the FORBES Annual Report on American Industry takes an average of each company's performance over the past *five* years, averaging out the down-cycles with the up-cycles, to reveal the underlying long-run trends. What emerges is a reliable record of performance over the long haul. In regard to profitability. And growth. And stock market value.

But even this doesn't tell it all. Top management wants to know how efficiently it has operated as compared to competitors within the same industry. Especially this year, when most companies in the same business have found themselves pretty much in the same boat. So our Annual Report Issue will tell about the competition. It will focus on more than twenty important industries, and rank the leading companies in each, according to the really significant yardsticks. In short, the *meaningful* measurements of a company's management.

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Forbes: capitalist tool



Pushing the Pacific

IF IT'S TRUE that promoters go where the opportunity is, Charles R. Williams is evidence enough that the Pacific Ocean is the next hot travel area of the world. Williams, 36, is president of Pacific Basin Travel Systems Corp., a company he founded two years ago after four years as a Donaldson, Lufkin & Jenrette partner in New York and Europe.

Williams' plans for the next decade are ambitious, all right: ten hotels for Hawaii's "neighboring islands" of Maui, Molokai and Hawaii; five more for Tahiti, Fiji, Singapore, New Zealand and Australia; executive conference centers dotted throughout the Pacific; and a Pacific area real estate investment trust. Total cost of all that building: \$150 million.

Besides his original \$500,000 stake, Williams has secured some \$3.5 million in venture capital from such investors as the Paris-based Aga Khan group. While the Maui hotel won't be done until 1972, an executive conference center—really a meeting room with film projectors and the like—is open in Hono-



Williams of Pacific Basin Travel

lulu, and Pacific Basin Travel has acquired Robinson's Hawaiian Tours, a 19-year-old Honolulu travel agency.

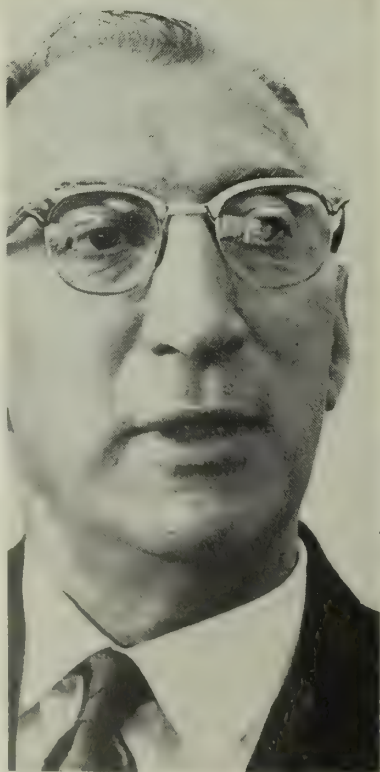
Williams has a long way to go, but, as he sees it, so does travel in the Pacific. "It is now and will continue to be the fastest-growing travel market in the world," he says. The growth is relative, of course. Asia and Australia had only some 3% of the international tourist market last year, for gross volume of under \$1 billion. This year the U.S.' recession may have cooled even Hawaii's tourist boom.

On the bright side, there is a surge in overseas travel by the Japanese—400,000 to Hawaii this year—and increased airline service beyond Hawaii. Williams has struck up a partnership with a French land-owning family in Tahiti, and his organization is pushing Pacific travel hard in the U.S. as, more importantly, are the airlines whose spanking new routes await a flock of tourists to join the businessmen flying the Pacific. Will Williams succeed? Perhaps not. But if he does, the opportunities are so great that in retrospect his success will have seemed inevitable. ■

Try, Try Again

FROM THE TIME he took over as chief executive of Bendix Corp. in 1965, A.P. (for Athanas Paul) Fontaine has sought to reduce the \$1.5-billion diversified auto, defense and aviation products company's dependence on government contracts, then 60% of sales. But in doing so he increased Bendix' dependence on another of its major customers, the auto industry. Now, in an effort to lean less heavily on either, Fontaine is acquiring American Forest Products, a building products outfit that earned \$8.1 million last year on \$167 million in sales.

Is Bendix going conglomerate? "The acquisition of American Forest Products," Fontaine says frankly, "is a part of our continuing diversification, and will reduce our dependence on government business from 45% to less than 30% of our sales. We hope that American Forest Products will become, like Georgia-Pacific and Boise Cascade, a diversified forest products company that will meet the coming housing boom. In a nutshell, that's



Fontaine of Bendix

it, and you can call us what you like—conglomerate or not."

Through no fault of his own, Fontaine's diversification efforts so far have consisted of running very fast simply to stand still. After all, who could have foreseen even 18 months ago that the auto business would fall off so sharply? But the result is that, despite Fontaine's efforts, Bendix' return on equity last year was just a bit better than it was a decade before. And with nine-month earnings off 40%, Bendix will not even do that well in fiscal 1970.

This year, the AFP acquisition will not help him either. AFP is suffering these days itself, mainly because of its dependence on the housing market. As against a \$5.2-million profit a year earlier, AFP lost \$400,000 in the first half of 1970. When and if the housing market recovers, of course, AFP is almost certain to boom. But one of the troubles with cyclical businesses is that they have a tendency to fall off together. On the other hand, they also have a tendency to recover together, and that could change the whole face of Bendix. ■

Maintaining Perspective?

FORGET the threat of a recession, the big aluminum companies told their stockholders as 1970 began. With worldwide demand booming, it was going to be another great year for aluminum. It was hard to fault their optimism. Demand *was* high and all the big aluminum producers *were* riding the momentum of sizable earnings gains they had racked up in 1969.

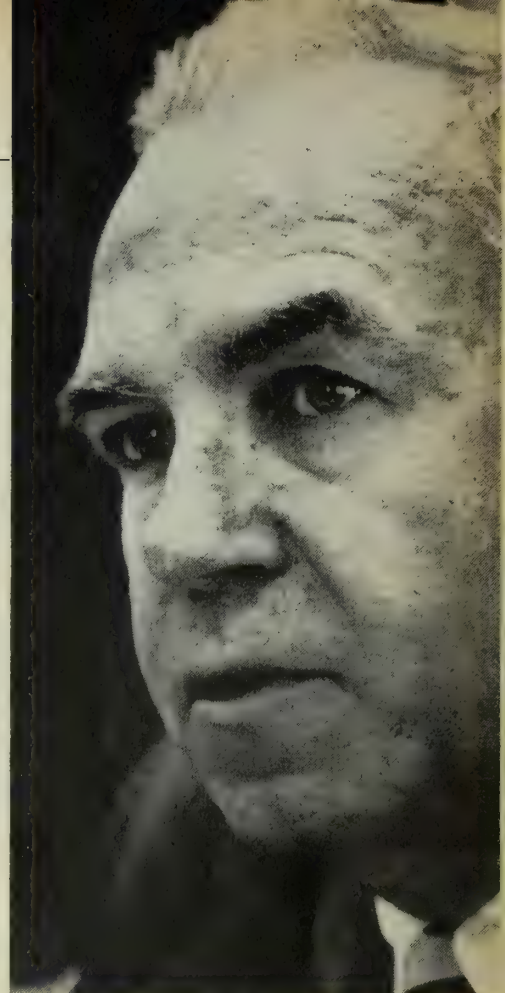
Nine months later it was a different story. Reynolds Metals weighed in with a 42% earnings drop for the third quarter. Kaiser Aluminum & Chemical showed a 40% decline, while Aluminum Co. of America's profits were off by 30%. All have made production cutbacks, and Kaiser has even shut down a big potline. The main reasons: price shaving in domestic markets, and a drop-off in the export demand that had been keeping sales levels high.

As the setback became more obvious, Alcoa's Chairman John D. Harper breezed into New York to pour oil on the troubled waters. Despite the sharp drop in Alcoa's

third-quarter net, Harper talked as though things couldn't be rosier. "Demand for aluminum is moving upward at an accelerating pace," he reported to a meeting of financial editors last month. "And I can't understand this talk about price pressure; our average price realizations are up."

Harper, of course, was talking about long-range demand. And indeed, aluminum sales will rise over the years ahead; but here and now declines are the order of the day. And higher price realizations are a holdover from price increases made earlier, plus a pulling back by most producers from more price-vulnerable lines of business. Can one expect them to last long in the current sales slump?

Harper's viewpoint is that of a commodity producer who confidently expects the upswing even as he experiences the down. Is the recovery all that automatic? Whether or not Harper believes so, the danger is that investors will—and will also assume that the upswing will automatically solve the problems of an industry burdened with overcapacity. ■



Harper of Alcoa

Jovanovich of Harcourt
Brace Jovanovich



Not Three Rs—Three Cs

SOREHEADS in the publishing industry have been known to suggest that Chairman William Jovanovich could have saved Harcourt, Brace & World a bundle of money if, instead of changing its name to Harcourt Brace Jovanovich, he had simply changed his own last name to World.

Considering that HBJ's earnings have more than doubled over the last decade on a fourfold increase in sales, Jovanovich has some modest claim on immortality, despite the 90-point drop in HBJ's stock (from 121 to 30) in the last three years. "I come here every five years like some kind of an insect," he told a New York security analysts meeting last month. "My next showing will be in 1975." Then he proclaimed xerography and illegal copying are not going to bankrupt book publishers.

Waving aside the 7% decline in HBJ's nine-month earnings, Jovanovich announced HBJ was looking again for acquisitions. When the accounting profession threatened to change the ground rules, he had

joined the conglomerates in saying the jig was up. But since then, he adds, "The auditors have been beaten down by their masters, retreated, defeated. We're at it again. We're looking. We're riding again."

HBJ's most profitable market is the colleges, but Jovanovich considers them places of "incarceration," and threatens to write a book calling for their abolition. The future of publishing, he says, lies in the Three C's: Computers, Cartridges and Cables (both television and phone). He sees a time when a man can phone for a TV cartridge and be billed for it by a computer.

On the other hand, he wants nothing to do with correspondence schools: "They make their money on dropouts." They charge a stiff initial fee, he says, and when the students drop out, the schools never have to provide the books and other materials the students would otherwise have needed to finish the course. "We're not in the business of dropouts," he says, "and making money on people who don't finish courses. With the Three C's, who the hell needs correspondence schools?" ■



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135
130
125
120
115
110
105
100
95
90
85
80
75

Percentage from 1967 as defined by Federal Bureau of Economic Research

preliminary ▼

AUG.	137.5
SEPT.	137.1
OCT.	137.2
NOV.	136.3
DEC.	134.5
JAN.	132.4
FEB.	130.9
MAR.	129.0
APR.	127.8
MAY	126.1
JUNE	125.8
JULY	127.2
AUG.	126.4
SEPT. (prel.) ..	126.4

Composed of the following

Production

- How much are we producing? (Federal Reserve Board Index of Industrial Production)
- What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders of durable goods related to inventories)
- How intensively are we building? (Dept. of

Commerce privately owned housing starts)

Consumption

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce-

service price index related to the consumer price index)

Income

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



How To Lose Corporate Identity

I WANT to vent a pet peeve. It concerns some 125 corporations which have taken a long step toward losing their corporate identity by changing their often meaningful names to a letter name which means nothing. When it was Corn Products, it meant something; but how many people recognize CPC International? But that's an easy one! How about these selected from some 20 companies whose names now begin with the letter "A"? We have AAA Enterprises, AAI Corp., AAR Corp., ACF Industries, ADM Industries, AGM Industries, AID Inc., AIM Companies, AITS Inc., AMF Inc., AMP Inc., AMT Corp., AO Industries, APL Corp., ARA Services and A-T-O Inc.

Just for good measure, throw in BMA Corp., CCI Corp., CMI Corp., ERC Corp., FAS International, GAC Corp., GAF Corp., GCA Corp., GF Industries, G-L Industries, GRT Corp., GSC Enterprises, GTI Corp., IAC Ltd., IHC Inc., ISI Corp., I-T-E Imperial, ITI Corp., KDI Corp., LSB Industries, MEI Corp., NBO Industries, OKC Corp., PKL Companies, PNB Corp., PPG Industries (which

you probably can identify), SCM Corp. (where the change of name did not do any good for the stock), TI Corp., TFI Companies, UAL Inc. (which certainly is not as meaningful as United Air Lines), VCA Corp., V.F. Corp. (which meant something as Vanity Fair), VSI Corp. and VTR Inc. U.S. Life "got lost on the way" when it changed to USLIFE Corp., and that was not too bad.

If you want a little mental exercise, or several hours of research in an investment firm's library, you can tell what all these companies do and where they come from. But I defy even a generalist security analyst to identify more than half of them without looking them up. Many of these companies, in an effort to prove that they are now "different" from what they once were, have completely lost their identity. Furthermore, their new names, in most cases, mean absolutely nothing.

Name changing in recent years has become a senseless epidemic. Not all of the folly has been to letter combinations. Admittedly, some of it has made sense—for instance, the change from AG Foods to Gino's. The letter-combination names, however, in many

cases have been just plain silly as well as confusing, and in some cases unquestionably have caused the stock to be less popular with investors than it otherwise might have been.

Well, that's my pet peeve. If it causes any board of directors to pause before doing the same thing, or if it causes any of the letter-combination companies to change their name again, I will feel that this column has paid a dividend.

The "Inevitables"

In selecting stocks, I love to base recommendations on what I call "inevitabilities." Some things almost inevitably follow other things. Right now the electric utilities are raising millions and millions of dollars to expand their ability to take care of a faster and faster growth in the demand for electric power. There is what many people have been calling "an energy crisis," and the antipollution movement is making it more and more of a crisis. The money which is being raised will be used for the most part to increase generating and distributing facilities. And *General Electric* (83), *Westinghouse Electric* (64), *Combustion Engineering* (45), *Babcock & Wilcox* (20), *McGraw Edison* (31) and *United Aircraft* (35), now going into turbine generators) should be supplying what the electric utilities need. *Williams Brothers* (28) has a somewhat similar position in the gas industry as a builder of pipelines. Coal companies should also benefit, especially those with lots of low-sulphur-content coal. One which has a lot of this coal to sell is *Union Pacific*

Mr. Hooper is associated with the New York Stock Exchange firm of W. E. Hutton & Co.

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Beth. Steel	Owens Illinois
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Control Data	Phelps Dodge
Eaton Yale	RCA
Fluor	R.J.Reynolds
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Corp. (43). Somewhere, over the hill, there should be a better demand for uranium as a source of power. The development of nuclear fuel, however, has been much slower than expected.

Incidentally, *Idaho Power* (29), paying \$1.60 and earning probably \$2.30 a share this year as against \$2.11 in 1969, looks like an interesting blue chip in the electric utility field. This company, which has more than enough power now for its customers, needs no near-term financing, generates its power from falling water, has no pollution problems, operates in an area where the personal income increase is well above average, has an application for higher rates pending, and could increase the dividend. A stock like this is unlikely to provide geometrical appreciation, but you do not have to worry about it.

Older readers will recall frequent mention of *Philips Lamp* of Holland, which has recently sold around 20. This is one of the largest electrical manufacturing companies with a worldwide business. In the first half, sales were up 16%, earnings about 26% to 68 cents a share. It is estimated that earnings this year will be in the area of \$1.60 a share with \$1.80 possible in 1971. Over the years this Dutch company has used stockholders very well indeed. I have owned some of it for over 20 years, participating in splits, rights and stock dividends.

If Paul McCracken, chairman of the Council of Economic Advisers, is right, and we are at the threshold of a big improvement in the economy, there should be increasing interest in the motors. The automobile industry may be more mature than the anti-pollution industry, but it is a big part of the economy. Always remember that *General Motors* (73) is about half of the auto industry, and that the stock represents about as complete a diversification of the whole economy as the shares of most any mutual fund. GM has been acting very well through the strike, and all strikes eventually end. Perhaps the end of the strike will signal quite a change in the general nature of the stock market.

There is not much point in reviewing my current broad stock market projections which were rather fully outlined in the Oct. 1 and Oct. 15 issues. On Oct. 6 the DJI got up to an intraday high of 791.06, which is near enough 800 to make my projection look fairly good. I am now thinking about a correction low of around 700 to 730. A Dow of about 710 would cancel out just about half of the rise of 163.61 DJI points from the intraday low of May 26. There has been little aggressive selling, but the demand for stocks has declined material-

ly. The good thing about the behavior of the list thus far in the correction is that volume has declined when the market has been weak. When the market gets going again there may be a little more emphasis on quality. We had a field day in the speculative stocks in September. Much of that was just a snapback from panic.

There will be some tax selling in November and December, but usually those who sell to register losses buy something else almost immediately, so the overall effect of tax selling is not too great. My guess is that the election results won't make much difference after the first day or two. I'm thinking in terms of something around 800 in the Dow, probably a little better, before the end of the year.

What's Next?

Looking further ahead than 1971, I wonder what the great growth industries of the Seventies will be. In the past 50 years we have had many spectacular growth industries. Think back for a moment. After World War I there were the new American chemical industry, radio, the technological revolution that began with the automobile, which required oil and which was exploited by an entirely new installment credit business. Then after World War II came the airplane, which made possible the airlines and a travel boom; electronics and television, the computer and an information revolution; and all through this period a population boom and new ways of retailing. These new ventures not only created fortunes and unprecedented industrial, commercial and residential building, but greatly increased the standard of living. Many of these industries are now relatively mature, but most are still growing, much more slowly, of course. What's next?

There's an energy shortage, and we must deal with growing pollution and the need for a livable ecology. There's a great need for better housing, and new residential areas removed from the smog and overcrowding of the cities and the suburbs. Better living for minority groups can replace some of the momentum lost through slower increases in population. Actually, don't we face a period when economic growth is likely to be slower, with greater emphasis on a better life rather than on acquiring more things?

With the third-quarter figures in and the GM strike—even with an early settlement—shrinking fourth-quarter expectations, it now seems probable that earnings on the DJI this year will not be much over \$50 a share, perhaps less. I am willing to bet, however, that 1971 will be better than 1970. How much better it is too early to tell. ■

TECHNICIAN'S PERSPECTIVE

By John W. Schulz



After Election Day

EVERY SO OFTEN—come to think about it, perhaps more often than not—the overall trend of common stock prices is governed by some concept which strikes investors as thoroughly plausible but, in the end, proves to have been without much basis in fact.

The stock market's collapse last April and May was in many ways a perfect example. People then were convinced that, after relenting for two or three months, the Federal Reserve Board was about to squeeze the money market all over again and that therefore we were in for a liquidity crisis and a wave of major corporate bankruptcies. As it turned out—and as could be demonstrated beforehand—there was no realistic reason for expecting the Fed to revert to tight money and every reason to expect it to forestall a liquidity crisis. Nevertheless, investors insisted on dumping tons of stock in a panic that was aggravated by fears that the Cambodian venture would lastingly escalate U.S. involvement in Southeast Asia. Those fears, too, proved unfounded.

The baseless panic ended on May 26. Let it be said to the credit of investors that they ceased panicking more than one month before U.S. troops were out of Cambodia and less than one month before the Penn Central's bankruptcy, which might have touched off an escalating wave of business failures. But give credit also to the Fed for meeting this threat with a sense of timing, a simplicity of maneuver, and an economy of ammunition that, in addition to being exactly adequate, were nothing less than elegant. Under the circumstances, it's more than a little puzzling that investors continue to insist on misreading the Fed. They refused to believe its determination to squeeze the economy early last year and its intention to reflate last winter and spring, and lately they've become obsessed with another "concept" that strikes me as no less mistaken.

This idea, which began to spread during the stock market's setback from the early-October rally tops, has it that the recovery from the May lows was essentially manufactured by the White House and the Federal Reserve

acting in concert to influence the votes of up to 30 million stockholders in the upcoming elections and that, *ergo*, the "plug will be pulled" after Nov. 3. More specifically, with no more need for a political ploy, the Administration will now cease to emphasize or overstate the positive aspects of the business news; the Fed having pumped up the money supply at an indefensibly fast pace, will start a new squeeze; and therefore stock prices must head for the cellar again.

A Willing Buyer

There are, I think, a few things wrong with these seemingly very popular notions. For one, unembellished statistical evidence of economic slack would provide the Federal Reserve Board with ample reason to *refrain* from making money tighter, while indications of an incipient business recovery should tend to support rather than depress stock prices at this stage. For another, I can see no basis for calling this year's revival of money growth excessive. As the preceding column stated, demand deposits and currency are up at an annual rate of only about 1% since early 1970, and the considerably greater rate that is apparent when time deposits are added reflects only a potential expansion of the credit base. The monetary facts thus do not call for a new squeeze, nor for the expectation of one; indeed, some observers believe that money growth has to be stepped up if the economy is to stage an adequate recovery. Incidentally, it has been pointed out, all governors but one on the Federal Reserve Board were appointed by Democratic presidents, which casts some doubt on whatever pro-Republican bias that body might have.

What may happen is that the money supply, broadly defined to include time deposits, will soon cease to grow rapidly or even stop growing for a while. This slowdown would probably mean no more than that the return flow of lendable funds into the banking system had been largely completed (*see Oct. 15 column*) and so should not be read as clear evidence of tightening money. If investors nevertheless keep selling stocks for this sort of "political" reason, I should be a willing buyer. ■



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STOCK ANALYSIS

By Heinz H. Biel



Creeping Doubts

INVESTORS are anxiously scanning the news for positive confirmation of their assumption that the recession has bottomed out. Because if that should *not* be the case, then the 150-point rise in the DJI between May and October might turn out to have been nothing more than merely a strong rally in a major bear market. What a dreadful thought! It revives memories of 1930.

It is perfectly normal for the market to be nervous and to suffer occasional attacks of doubts and fear. After all, a lot of money is at stake, and a false appraisal of conditions can be very costly. For the past several months economists, both inside and outside the Government, have been telling us that the recession (some even have questioned whether it actually was one) was bottoming out and that an upturn was imminent. So far, alas, nothing is turning up. Virtually all business statistics remain negative. Now, of course, much can be blamed on the General Motors strike, which will affect an ever-broader spectrum of the economy the longer it lasts. But is the GM strike being used as an alibi to cover up a more fundamental weakness?

It is symptomatic of the investor's creeping doubts that the free market price of gold is rising once again, and that gold stocks now rank prominently among the few issues making new 1970 highs. This phenomenon usually occurs when people are pessimistic on the business outlook.

Nobody should have had any illusions that third-quarter earnings reports would make pleasant reading, but a great many statements now coming out are far worse than had been expected. In fact, some of them are perfectly awful. Here we clearly see the damaging effects of the combination of so many adverse factors: the high cost of money, labor and materials; production at less than optimal levels; and inability to increase selling prices.

Forecasting business trends is almost as hazardous as forecasting the stock market. One has to deal with so many intangibles that there will always be elements of uncertainty. Of course, I am not *sure* that the Ameri-

can economy is in the process of emerging from its slump, and I am not *sure* that the bear market ended on May 26, but I am confident that this is the case and, therefore, willing to act accordingly.

Such confidence is not based purely on a hunch. The seeds of forthcoming improvement are slowly becoming visible even to the naked eye. Short-term credit has not only become much cheaper, but also—and that is more important—more readily available. The bond market is absorbing very large amounts of new offering. Corporate managements are effectively swinging the economy axe. The excess fat is being trimmed off. Labor productivity is gaining and while wage rates are still rising steeply, labor costs per unit of production are increasing at a far slower pace, if at all. These developments justify the expectation that profit margins will now improve.

Keep the Faith

It is quite possible that the market will have a setback or at least go through a period of consolidation. This would be perfectly normal after a 25% advance. Yet whenever the market is sagging, prospective investors turn doubtful and begin to lose faith. Instead of taking advantage of lower prices, as they had planned to do ("I'll buy it on a setback"), they wonder whether they shouldn't sell what they hold already. I know that it is *easier*, psychologically, to buy in a rising market where an immediate profit makes you feel good, but it is more *profitable* to buy on reactions. Keep the faith, investors!

Can there be much risk in a stock of a company which has just reported record sales and record earnings, and the present price of the stock has been exceeded in every single year in more than a decade? One such stock is *Thrifty Drug Stores*, which operates one of the largest chains of drug stores in the country with sales of well over \$300 million. Most of the stores are in Southern California, which has enjoyed exceptional population growth. A shrinking profit margin has slowed down Thrifty's earnings growth, but the company seems gradually to be overcoming this problem. Net income for the year ended Aug.

Mr. Biel is a senior vice president of the New York Stock Exchange firm of Havenfield Corp.

31, 1970 was \$1.60 a share, an all-time high and 9% above the preceding year. The stock, at 17, is no longer selling at a growth-stock multiple but at a very modest 11 times last year's earnings. The current fiscal year's income is tentatively projected at \$1.70 to \$1.75 a share.

Speculating in Pan Am

I just can't imagine *Pan Am* going broke. This is not going to be another Penn Central. Obviously, a company that has not earned any profits for two consecutive years and is in debt up to its eyeballs cannot be considered acceptable for investment, but *Pan Am* appeals to me as a speculation. I believe that the company and perhaps the entire air transport industry has passed the nadir. If you have misgivings about the stock, which won't pay dividends for years to come, several of the *Pan Am* convertible bond issues may be suitable vehicles. The 4½s of 1986 are selling below 50 and offer a current return of over 9%. The premium above conversion parity is about 35%, which is quite high but not excessive in view of the depressed price of the stock. The 5½s of 1989, at 59, yield a little less, but the conversion premium is also smaller at only about 27%. By the way, anyone still stuck with *Penn Central* shares has a better chance of recovery in the airline industry.

I have previously (*FORBES*, Feb. 15, 1969) commented on the fine record of *Papercraft Corp.*, which keeps growing, seemingly regardless of general business conditions. Its principal product is gift wrappings, a field in which it is the leader. Even though the gifts may be cheaper when the donors feel less affluent, the wrappings have to look good. *Papercraft's* per-share earnings have just about quadrupled since 1962 and more than doubled since 1965, a performance which is rare in any industry. The company enjoys an enviable profit margin, which reached a new high of over 20% of pretax income to net sales.

In contrast to many growth companies, which never seem to be able to afford to pay dividends, *Papercraft* is treating its shareholders with consideration. Its dividend rate has been raised five times in the past six years, the present rate being 50 cents a year. In addition, stock dividends of 3% have been paid in 1969 and 1970. At a recent price of 28, *Papercraft* was selling about midway between the year's high and low, and at little more than 14 times estimated 1970 profits which could approach \$2 a share. In my opinion, this is a conservative appraisal of an obviously well-run growth company. ■

Confessions of an Investment Counsel



The money I personally have *lost* investing in stocks in my investment lifetime might represent a small fortune to some investors.

However, losing my own money taught me two valuable principles.

As a result, I have made materially more in stocks than I have lost. In total, I am substantially ahead. I intend to stay that way!

My largest single loss in a stock was, in a way, responsible for my largest benefit.

Some years ago I owned a certain stock in which my investment was valued at \$48,050. That stock had increased from a \$17,200 investment I had made two years previously.

At the time stock number one was worth \$48,050, I invested \$20,000 in another stock. When I bought them, both stocks were rated "A" quality.

Three years later I still owned both stocks. *However* stock number one had declined drastically. My \$48,050 value had shrunk to \$5,600.

During the *same* three-year period, my \$20,000 investment in stock number two had *increased* to \$54,100. Why this tremendous difference in the *same* three-year period?

I began to dig for the facts. There was not just one reason, of course. There were several. However, when I summarized the reasons I found they could be stated in two basic principles.

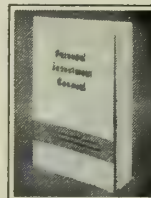
Since then, those principles have not helped me make every stock selection and stock elimination decision correctly. However, using those principles has helped me concentrate on the right things to do.

My staff and I use those principles in managing our own money and in providing personal investment counsel for clients.

If, as I did, you have experienced some less-than-good results in mutual funds or stocks you have owned... this may not be your fault at all.

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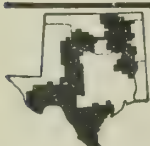
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DIVIDEND NOTICE

The Board of Directors of Ford Motor Company at a meeting held in Dearborn, Michigan, on Oct. 8, 1970, declared a fourth quarter dividend of 60 cents per share on the Company's outstanding stock, payable December 1, 1970, to stockholders of record at the close of business on Oct. 29, 1970.



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COMMON STOCK DIVIDEND

The Board of Directors of Central and South West Corporation at its meeting held on October 15, 1970, declared a regular quarterly dividend of forty-seven and one half cents (47½ c) per share on the Corporation's Common Stock. This dividend is payable November 30, 1970 to stockholders of record October 30, 1970.

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WALL STREET VIEW

By Charles Rolo



Hits And Misses

PEOPLE who go around promoting the myth that they're invariably right about the stock market really are insufferable. Sing the bear-market blues and they will tell you they're in great shape—they sold out at the top. Name a stock you own that's doing nicely, and they'll come up with three of theirs that are doing much better. With a smug assumption of superior wisdom, they keep sounding off about the errors of others—their own, of course, are never mentioned.

A fitting punishment for this type of myth-builder would be to sentence him to write a monthly column on the stock market. It's a chastening confrontation with your own fallibility. Since a year has gone by since I first started writing in *FORBES*, this seems an appropriate time to review the record as objectively as possible.

In mid-October 1969, the bear market was ten months old and the Dow Jones industrial average stood at 830. I subsequently noted that the economic fundamentals were "awful"—which was obvious—but failed to foresee what now appears equally obvious: that the murderous combination of tight money, soaring interest rates and recession would bring about a wholesale massacre of stock prices. My guesstimate for this year's low reading on the Dow was an optimistic 700.

The "prospective boom in building" which I glimpsed on the horizon a year ago proved, alas, to have been a mirage. But what was bad advice then may be sound advice now: to start investigating companies which stand to benefit from a pickup in home building. It could get under way sometime in 1971.

It looks (so far) as if I was right in suggesting, in mid-June, that the bear market was in its final phase; and in subsequently signalling that the season for bargain hunting was already under way. Admittedly, this was the prevailing view. However, I did take issue with the pieties so widely intoned when Wall Street was wallowing in guilt and repentance. The popular theme was that the profligate tyrant, Growth, was dead and good King Blue Chip would regain his lost dominions. Yesterday's corrupt favor-

ites would fry in hellfire everlasting and a pox on romance, concepts and the wholesome pursuit of performance. Hereafter the congregation, chastised and chastened, would worship at the shrine of Quality, Assets and Value. As I predicted, this pious forecast has proved to be baloney. I did not foresee, however, that the congregation would be quite so ready for another speculative spree.

Bias for Growth

A recurring theme of these columns has been investing for growth (which of course has numerous pitfalls), and I have made it clear that I have a bias in favor of growth industries and companies that appear to have superior growth potentials. In the July 1 column, I included a "Shopping List for Growth Stocks," emphasizing that the 25 issues listed were candidates for purchase on weakness. Considerable weakness did set in, but the stocks, on the average, were recently 14% above their late June levels, and some show sizable gains (among them Alexander & Alexander, American Air Filter, Holiday Inns, Revlon, Schlumberger).

In the course of the past 12 months, 29 stocks have been recommended at a specific price. Excluding price changes of less than 10%, eight are up and eight are down. The 29 stocks recently showed on the average a minute percentage gain. During this period, the Dow plummeted 200 points, and has since recovered 125.

The top performers were Johnson Products (up from 13 to 27), TelePrompter (54 to 71), McGraw-Hill (11½ to 18½), Mobil Oil (42 to 54), and Standard Oil of New Jersey (55 to 68). The duds included Prentice-Hall (49 to 35), Meredith Corp. (44 to 22), Slick (18 to 12½), and Fidelity Union Life Insurance (39 to 29). Here's some capsule follow-ups.

TelePrompter is the big boy of the cable television industry. The stock usually swings with the market. Its potentials are exciting, and I still consider it a buy in periods of weaknesses—but only for those willing to assume a high degree of risk. McGraw-Hill and Johnson Products (a smallish cosmetics company with black management and products designed for the black population) are begin-

A guest columnist, Mr. Rolo is co-director of the Research Dept. of the NYSE firm of H. Hentz & Co.

ning to look fairly fully priced on the basis of current earnings, but I'm impressed by Johnson's long-term prospects. *Mobil* and *Jersey Standard* are sound holdings, but are no longer on the bargain counter.

When I recommended *Prentice-Hall* and *Meredith* back in November 1969 (McGraw-Hill was recommended much later, after it had dropped 60% from its 1969 high), I failed to foresee that 1970 would be a disaster year for the publishing industry, due to disruption of the college market and other adversities. Both stocks were clobbered by disappointing earnings and lowered profits forecasts, and I don't see a strong recovery around the corner.

Slick has suffered from unexpectedly poor earnings, some loss of enthusiasm among investors for pollution-control stocks and roadblocks hindering the acquisition of cash-rich *Filtrol*. At 13 the stock is a speculation that could work out well if the *Filtrol* acquisition goes through, which is still highly uncertain. *Fidelity Union Life Insurance* was depressed by the withdrawal of a stock registration and the fact that its business is concentrated in the turbulent college market. I'm disenchanted with the stock.

Among the other recommended issues, the following still appeal to me (in varying degrees) at recent price levels: *Buffalo Forge*, *Gulf Oil*, *Joy Manufacturing*, *San Diego Gas & Electric*, *Standard Oil (Calif.)*, *Texaco*—also *Alexander & Alexander* and *Cox Cable* on weakness.

Bullish but Cautious

Many segments of the stock market—particularly the secondary and speculative areas—have advanced too far too soon, and a consolidation or correction is to be expected. It could be the pause that refreshes or a setback that revives the jitters, depending, I think, on whether or not Washington confronts the nation with any unpleasant economic surprises after the election. I believe the underlying market trend is up, but I'd like to see clearer signs of success in the campaign against inflation.

The huge prospective deficit in the federal budget, coupled with the expansionary monetary policy of the Federal Reserve Board, could bring about a reacceleration of inflationary pressures. If at some point in 1971 investors were to be faced once again with the prospect of monetary stringency and higher interest rates, the outlook for the stock market would be ominous indeed. A probability? No. A possibility? Yes. So where does this leave me vis-à-vis the market? Basically bullish, but cautiousness keeps breaking in. ■

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OVERSEAS COMMENTARY

By George J. Henry



Foreign Resource Stocks

THE ANNUAL MEETING of the International Monetary Fund this year provided no surprises and, in comparison with past years, practically no new ideas for drastic change. The SDRs (special drawing rights) are effective and seem to be working. Only time will tell how well, and how much the amount of credits can be increased in the future. Surprisingly little was said about the price of gold, which in itself is a tribute to the functioning of the SDRs and to the two-tier market for gold. The possibility of increasing the margins of fluctuations in currency parities is being seriously studied.

While the IMF is considering the possibility of allowing greater currency fluctuations, the six countries of the Common Market are aiming for a greater degree of rigidity in the conversion rates of Common Market currencies. This is a prelude to greater financial cooperation and the eventual establishment of a common monetary unit. Common currencies are by no means new—three of the members of the Common Market (France, Italy and Belgium) belonged to the pre-1914 Latin League which enjoyed a common monetary denominator.

The only obvious investment dictum to come from the monetary meetings in Copenhagen is what has so often been said in this column: Investors in gold shares should stick to those investments which can be justified by a \$35 price of gold. There are quite a few of these around today, especially in South Africa, and they may be attractive investments if one does not consider the political risk in that part of the world to be as grave as I, for one, do. Gold shares will undoubtedly benefit from time to time from various international monetary crises which are still likely to occur, though with less severity and frequency than during the last ten years. However, the risk of holding them should be minimized by acting on the assumption that an upward change in the official price of bullion is not likely to occur in spite of the recent relative strength of the free market.

The glamour stock of today is frequently the neglected share of tomorrow. Economic potentials change, demand shifts, and the sex appeal of the

marketplace is perennially concentrated in a different corner. Sometimes old favorites long neglected come back, but not too often. Sometimes they come back in the most unexpected areas. Who would have predicted, even five years ago, that coal mining shares, blue chips many decades ago, would ever be regarded with at least a hint of glamour? A leading London firm of brokers specializing in international business has come to the conclusion that many colliery issues are in this category. The Japanese production of steel and pig iron has more than doubled since 1965, and imports of coal needed in the production have increased from 15 million tons in 1965 to 40 million tons last year and an estimated 50 million tons for the current year. Half of this demand is satisfied by the U.S., but Australia is rapidly catching up.

Two from Down Under

The London study refers to the *Pittston Co.* in the U.S. and *Utah Mining* in Australia, and investors may find it worth their while to look into the prospects of these companies. The stock of Utah Mining regrettably has no market in this country. It was recently selling in Australia at the equivalent of about \$5.25 per share and, of course, any would-be U.S. purchasers would have to pay an additional 11% interest equalization tax. Apart from its wide interest in coal, Utah Mining is in iron ore, which is also being exported in ever-increasing quantities from Australia to Japan. Estimated earnings for this year are about 23 cents per share, so to some extent prosperity is discounted. However, investors may well find it profitable to look at this picture in greater detail.

Australia is rich in iron ore and in coal, both of which are exported to Japan. Now Australia will have an additional cheap source of fuel in the form of natural gas. It seems to me that in spite of differences in labor costs, a great deal can be said for Japan importing ready-made steel rather than the two important but bulky natural resources needed in its manufacture. A listing of these resources calls to mind *Broken Hill Proprietary*, (16) largest and probably most efficient iron and steel producer in the

British Commonwealth. The company also has major interests in Australian iron ore and within a year or two will derive a great deal of revenue from its extensive oil and gas discoveries. What has often been stated remains as true today as ever: Broken Hill Proprietary may not be the most glamorous stock in Australia, but it would be difficult to find a more certain, if somewhat conservative, means of participating in the growth of that country.

Neglected Blue Chip

Among neglected giants, *Unilever* deserves special attention. This great Anglo-Dutch combine operates in about 50 countries through about 500 subsidiaries. Excluding public utilities and international oil combines, it ranks as one of the greatest industrial operations in the world, second only to General Motors. While it would be almost impossible to mention all the areas in which it has an interest, a large portion of its business is still transacted in the areas where vegetable oil plays a leading role, mainly margarine and other edible fats, soaps and toiletries. However, it is gaining in the packaged food industry—especially in Europe—and in other fields as well.

Both sales and operating income showed gains for the first six months of the year, in spite of a poor first quarter. The company earned \$1.62 per share for the first half, as compared with \$1.60 for the same period of 1969. The recovery trend should continue, and earnings for the full year are estimated to be about \$3.50. At a price of about 27 the Dutch parent company's (*Unilever N.V.*) shares would seem to be very attractive. In comparison the shares of *Unilever Ltd.* (the English company) are somewhat overpriced. The *N.V.* shares have a par value of 20 florins, the English a par value of 1 pound. Under the agreement between the two (for dividends and other purposes) £1 is the equivalent of 12 florins. Consequently, with the *N.V.* stock selling at about 27, the English shares should theoretically sell at around 16; the actual price is around 25.

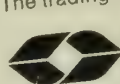
This large difference is caused by the vagaries of exchange control in Britain. The purchase of *Unilever Ltd.* shares can be made by a British resident without any restrictions. This is a means of buying into an international organization whose stock should afford its holders some hedge against the so-called "sterling risk." Hence, British investors are prepared to pay this huge premium. Needless to say, Americans should only consider purchase of the Dutch company's shares. ■

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Remember when the Peace Corps happened?

There was an electricity, a shared smile. Most of us said, "What a great idea!" And thousands of Americans said, "I want in."

Just like that. The Peace Corps was in business, exporting a product that the cynics had made jokes about for two hundred years: The American Innocence, the notion that people can change things.

The supply of volunteers was unlimited. Before the Sixties ended more than 40,000 Americans—most of them young and white and college educated—had joined the Peace Corps.

Whatever happened to the Peace Corps?

What happened was that America, the world's leading exporter of innocence, ran out of the product at home. Let's not go through the list again. Growing up anytime, anywhere is hard work. Growing up in America has become almost unbearable.

The Peace Corps had some growing up to do, too.

It had to stop telling young people that love alone conquers all, because it doesn't.

It had to stop saying that volunteers could be "agents of change"—political change—because it wasn't true.

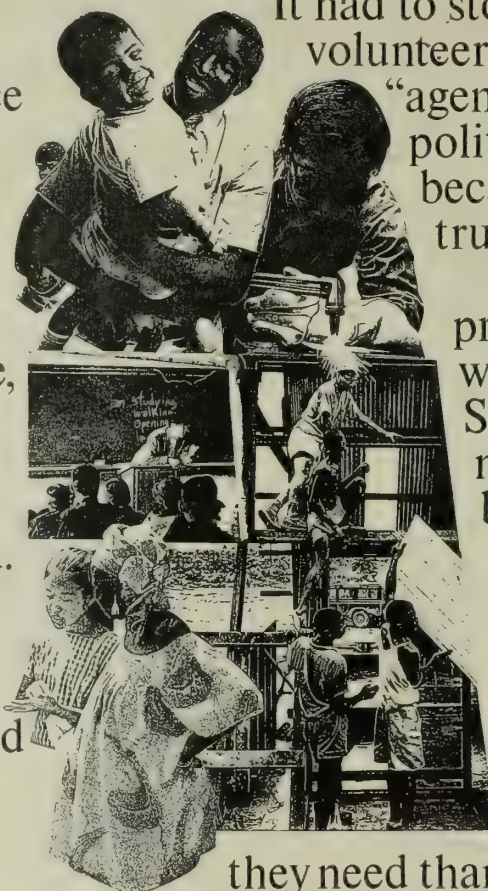
It had to stop pretending it wasn't a United States government agency, because it is.

It had to learn that—believe it or not—people in faraway lands know more about what

they need than we do. (And when they ask for help, they're very specific: an electrician, two city planners, five math teachers, an experienced farmer.)

Today the Peace Corps is in 60 countries. That's 59 more than it started in. It's changed a lot, but so has the world and so has America, and so—after all—have you.

The Peace Corps is still a remarkable idea for people who need to help, nose to nose. But it's not like it used to be. It's better.



The Funds

Children As Tax Shelters

FOR YEARS the \$45.2-billion mutual fund industry has recognized that trust funds for children offer one of the industry's most promising markets, and the industry has gone out after it. But for months most of the industry's booklets on setting up investment accounts for children have been out of date. Reason? The liberalized deduction provisions of the 1969 tax reform bill have increased the potential value of a minor as a tax shelter dramatically.

Previously, a minor was permitted to earn \$600 per year without having to pay taxes—and without jeopardizing his parents' right to claim him as an income tax exemption on their own returns.

Congress felt that the old \$600 ceiling took away a student's incentive to do summer and after-school work. Their solution was to triple a minor's tax advantage in the hope of rekindling the puritan virtue of hard work. But a minor's tax benefits apply not only to income he earns, but also to dividends, interest and capital gains on securities given him.

Under the law, a minor is permitted to earn \$1,800-\$1,850 per year, tax free, from 1970 to 1973. The increase comes from the minor's increased personal exemption, the new low income allowance, and the \$100 dividend exclusion. On any income above \$1,800, taxes would start in the lowest tax bracket, 14% vs. as high as 70% for some parents—though they would lose the child's exemption. On capital gains, only 50% would be taxable.

Death is inevitable, but death duties are not. The new tax law makes it more attractive than ever for the well-to-do investor to create temporary trusts for his children or grandchildren—to divert money that would ordinarily be paid out as taxes into a special account for paying future tuition bills.

The two prime vehicles for turning children into tax shelters are short-term trusts and the much simpler, more flexible custodian accounts, now permitted by all of the states and the District of Columbia. Each has its advantages.

Setting up a trust is generally a fairly complicated procedure. Since there is no automatic form of trust, the details have to be worked out

with a lawyer. Because the trust cannot be added to over a period of time, the size of the trust has to be fairly substantial to make it worthwhile, and the gift put in a trust may not qualify for the annual exclusion of \$3,000 under the Federal Gift Tax Law. Moreover, if a security is registered in a minor's name, it cannot be transferred until the minor becomes 21 unless a legal guardian has been appointed.

On the other hand, a trust does have advantages. It can be set up for a limited period of time. The income can be devoted to a minor's benefit, and then, when the time limit expires, the principal can revert to its originator for other uses.

A custodian account, on the other hand, should be turned over to a minor when he reaches the age of 21 (see caption). Under legislation passed by all but a few southern states a custodian account can be set up by registering securities thus: John Smith as custodian for Richard Smith under the (home state) Uniform Gifts to Minors Act.

The adult custodian is given broad powers to deal with the donated securities, including the right to collect income, to hold, manage, sell, invest and reinvest; to use the income and/or principal for the support, maintenance, education and benefit of the minor. The legislation also provides for successor custodians, if needed, and for the securities to be turned over to the minor when he reaches 21.

The tax advantages of using the custodian approach are immediate. Both parents can contribute \$3,000 each into a custodian account without incurring a gift tax. If two grandparents are living, each can also add \$3,000 without incurring a gift tax. Thus these four donors could put in \$12,000 the first year or \$24,000 over the two months of December and January without incurring a gift-tax problem. Moreover, in contrast to the trust, parents and grandparents can add to a minor's custodian account each year as they choose.

The tax savings of a custodian account can be significant. Over a ten-year period, income of \$18,000 could be accrued completely free of taxation. And that is for only one child. Noted tax lawyer Eugene



So Sue Me. "The law clearly states that money in a custodian account belongs to a minor when he turns 21," says attorney Eugene Bogan, a tax specialist and consultant to the Investment Company Institute. "But if the kid becomes a bad apple or refuses to spend it on his education, a custodian has a practical solution: Tell the brat to sue you, and often there's not much he can do."

Bogan recently set up custodian accounts for each of his 12 grandchildren and four nephews, offering the potential of sheltering \$288,000 in income from taxes over the next ten years. And it's not only income that's sheltered. In addition, his potential estate tax has been lowered correspondingly.

"Warning," says Bogan. "A parent who donates securities to his child's account doesn't dare name himself custodian. The IRS has been fighting to establish that a custodian who dies after setting up an account for his children should have that money included in his estate. Parents may safely serve if the money is from grandparents."

Mutual funds make an excellent vehicle for establishing custodian accounts for minors. Accumulation plans automatically reinvest all dividends and capital gains and reduce record keeping to a minimum. Conservatively managed funds, unlike a savings account, or single stock investment, provide both a hedge against inflation and diversification. However, the custodian approach can also be used to put a minor's income into other investments.

The Montana Chartist

Ask George A. Chestnutt why his American Investors Fund is down 42%, or over \$120 million, in the six months ended June 30, and he'll give you a succinct answer: "The fund has gone down because the stocks we invested in went down and the stock market went down." Which, of course, is not really an answer at all, but what the logicians call a tautology—repeating the same statement in different words so that a thing seems to be a consequence of itself: A decline of a fund *consists* of a decline in the stocks that comprise it.

But it is still worth asking what happened to Chestnutt and his fund since they were first discovered up in Greenwich, Conn. back in the early Sixties by the press and the investing public.

Chestnutt was good copy in those days. A former power company engineer from Montana, he had become adept in the use of charts by keeping them for his father, starting at age 11. He also used a computer, and he never came to New York. From this it was easy to fashion the myth of Chestnutt the master chartist, a man who ignored the fundamentals—product, industry, management, earnings trend, market share, or whatever—of a company that interested him, but who somehow managed to divine the future movement of its stock from the pictures he could coax his

computer to provide for drawing on his charts. Eventually he was credited, like Fred Alger, Jerry Tsai and their like, with near-supernatural powers, and over \$100 million a year flowed into his American Investors Fund.

The chances are, of course, that George Chestnutt was never the chartist-computer fanatic that he was so often pictured as being. He certainly doesn't go along with that today: "A chart is nothing more than a convenient way of visualizing statistics," he says, "and a computer is no more than a way of keeping track of a lot of stocks. You can't have everyone coming home from Aqueduct [race track] a winner, and the same thing is true of the stock market.

"Charts and the odds aren't perfect, but under most circumstances they'll give you more of a chance since so many people use solely the fundamental approach. But when you end up with over 5% of a company, as [we did] in the case of Champion Home Builders, Electro-Nucleonics and Talley Industries, it's pretty hard to immunize oneself from the fundamentals."

In retrospect, Chestnutt may well have retreated from charts to his detriment. He made his big killings by his timing in buying and selling the airline stocks between 1962 and 1966 and later in such stocks as Xerox. One thing these stocks had



Chestnutt of American Investors

in common was long enough histories and broad enough markets so they could be charted. His big losses of 1969-70 came mainly in letter stocks and over-the-counter issues that seldom have had a market or a past worth charting.

Whatever the source of his errors, his stockholders have paid dearly for them. But not Chestnutt. His management fee has run over \$1.4 million in each of the last two years, and was above \$500,000 even in 1970's grim first half. American Investors Fund is selling well, with sales exceeding redemptions by 61% in the first half.

And what perspective, in light of his experiences of the last decade, can Chestnutt bring to today's market? "It is going up now," he says, "and so are our stocks." ■

Trends & Tangents

(Continued from page 10)

to contain neither these nor other miracles. Sample: a washday product called Ecolo-G that claims to be phosphate-free, nitrate-free, enzyme-free and biodegradable. It also allegedly washes clothes.

Only in America

Until future notice, all new investors in Dearborn Computer & Marine Corp. stock must be U.S. citizens. It's unusual for a company to place such restrictions on the purchasers of its shares, but Dearborn has found itself in an unusual

situation. Approximately 28% of Dearborn's stock was acquired by an offshore fund located in the Bahamas, which did not know of the provision in the U.S. Shipping Act of 1916 that 75% of a company's stock must be in U.S. hands if the company operates ships in coastwise trade. Dearborn must now screen its stockholders until the percentage of non-U.S. ownership drops or the fund divests itself of some of its holdings. The problem also arises in communications companies that must stay within federal limits on foreign ownership.

Honor System

Most fads come and go, but the antismoking movement seems made of more durable stuff. State Mu-

tual Life Assurance Co., which began to offer special life insurance rates for nonsmokers back in 1964 after publication of the Surgeon General's report, announced recently that it had gone over the \$1-billion mark in face value of such insurance sold. Nongovernment smoker policies accounted last year for 39% of the company's individual life insurance sales, and this year's percentage will be higher still. All the policyholder need do to qualify is to sign a statement saying he has not smoked a cigarette in the past year (although cigars and pipes are acceptable). State Mutual has not yet cancelled a policy because a former cigarette smoker has backslid and succumbed to the lure of the weed again. ■

READERS SAY

(Continued from page 8)

the year 1969, sales of our nontobacco product lines, minus excise taxes, increased about 10%, and earnings were up more than 21%.

All three of our alcoholic beverage companies set new sales and earnings records last year, and our alcoholic beverages did better than the 5% increase registered by the industry as a whole. J&B was once more the best selling Scotch in the U.S.

—DAN PROVOST

Director of Corporate Communications,
Liggett & Myers Inc.
New York, N.Y.

Old Friends Revisited

SIR: The article on Nestlé, "The Secret Giant," produced nostalgia: Between 1960 and the end of 1967, I maintained a villa in Montreux, and both at the club and our home came into frequent contact with Nestlé's top echelon. Your writer is to be congratulated on discovering as much as he did.

—LAWRENCE C. BROWN
Tahoe City, Calif.

Comeback of the Year?

SIR: Among the comeback champions (FORBES, Oct. 1) you omitted University Computing. From 13% to 33% is no small move.

—RUSSELL STERN
New York, N.Y.

Just the Gas, Ma'am

SIR: In the Sept. 1 issue (p. 40) a top oil company executive said, "The independents are merchandising us right off the map... I don't know the solution." I reply—begin to ask people where they buy their gas and why. When I buy gasoline, I don't want to be coerced into buying stamps, a carton of soda, china, glassware, towels, steak knives, unlucky contest coupons or TV and radio spots. *All I want is gas!* The independents' price proves that these giveaways are not free.

—DAVID L. HOSACK
Wickliffe, Ohio

Equal Time for the Navy

SIR: We'd like equal time with the Marine Camp High Sierra, as featured in "The Marines Do It Again" on page 18 of the Sept. 15 issue of your magazine. Navymen at the Naval Training Center at Bainbridge, Md. have contributed their time to conduct sports events and health education programs for Camp Concern, which has been working with disadvantaged Baltimore youths since 1968.

—E. MARIE MEIER
Managing Editor,

*The Journal of Navy Civilian
Manpower Management*
Washington, D.C.

FORBES

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THOUGHTS... ON THE BUSINESS OF LIFE

Since a politician never believes what he says, he is surprised when others believe him.

—CHARLES DE GAULLE

If you allow a political catchword to go on and grow, you will awaken some day to find it standing over you, arbiter of your destiny, against which you are powerless.

—WILLIAM GRAHAM SUMNER

Nothing is so contagious as enthusiasm.

—EDWARD BULWER-LYTTON

That cause is strong which has, not a multitude, but one strong man behind it.

—JAMES RUSSELL LOWELL

We are of different opinions at different hours, but we always may be said at heart to be on the side of truth.

—RALPH WALDO EMERSON

It is ridiculous ever to forget that you and your business are each implanted in the society of the moment. . . . We cannot ignore the world of our time. We had better understand it.

—J. IRWIN MILLER

Idealism is fine; but as it approaches reality, the cost becomes prohibitive.

—WILLIAM BUCKLEY

The truth is, we can't afford not to become involved in social problems. It has got to be a cost of doing business—and it will be costly—so that your community will be worth doing business in and living in.

—ELIsha GRAY II

Misguided idealism is as unproductive as unconcern.

—A. DODDS KINARD

We do not say that a man who takes no interest in public affairs is a man who minds his own business. We say he has no business being here at all.

—PERICLES

It's easier to provoke indignation than to arouse enthusiasm.

—WILLIAM FEATHER

B. C. FORBES

All through the ages the most worthy characters have been those who were dynamically enthusiastic over some definite aim and end. The young man who is afraid to manifest enthusiasm lest his dignity suffer is not likely to have much dignity to lose by and by. Enthusiasm is the steam which makes the engine go. It is, if you like the simile better, an electric dynamo, capable of generating currents of infinite power and potentiality. "Whatsoever thy hand findeth to do, do it with thy might." That is the Sacred Book's way of exhorting mortals to be enthusiastic.

Truth is never to be expected from authors whose understanding is warped with enthusiasm.

—JOHN DRYDEN

It is more offensive to outshine in dignity than in personal attractions.

—BALASAR GRACIÁN

The cheapest way to have your family tree traced is to run for office.

—ARNOLD GLASOW

This is quite a game, politics. There are no permanent enemies, and no permanent friends, only permanent interests.

—WILLIAM CLAY

Vote for the man who promises least; he'll be the least disappointing.

—BERNARD BARUCH

Great men, till they have gained their ends, are giants in their promises, but, those obtained, weak pygmies in their performance.

—PHILIP MASSINGER

The only thing wrong with democratic process is the failure to use it.

—SEYMOUR GRAUBARD

An informed people is one of the best guarantees of a continuing democracy.

—HARRY F. BANKS

The value of an idea has nothing whatever to do with the sincerity of the man who expresses it.

—OSCAR WILDE

The end of all political effort must be the well-being of the individual in the life of safety and freedom.

—DAG HAMMARSKJÖLD

A Text . . .

Sent in by Mrs. Lillian A. Aghasian, Seattle, Wash. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

See that none render evil for evil unto any man; but ever follow that which is good, both among yourselves and to all men. —I THESSALONIANS 5:15

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FORBES

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of the Seventies?**



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As father of the bride you get to keep what's left.



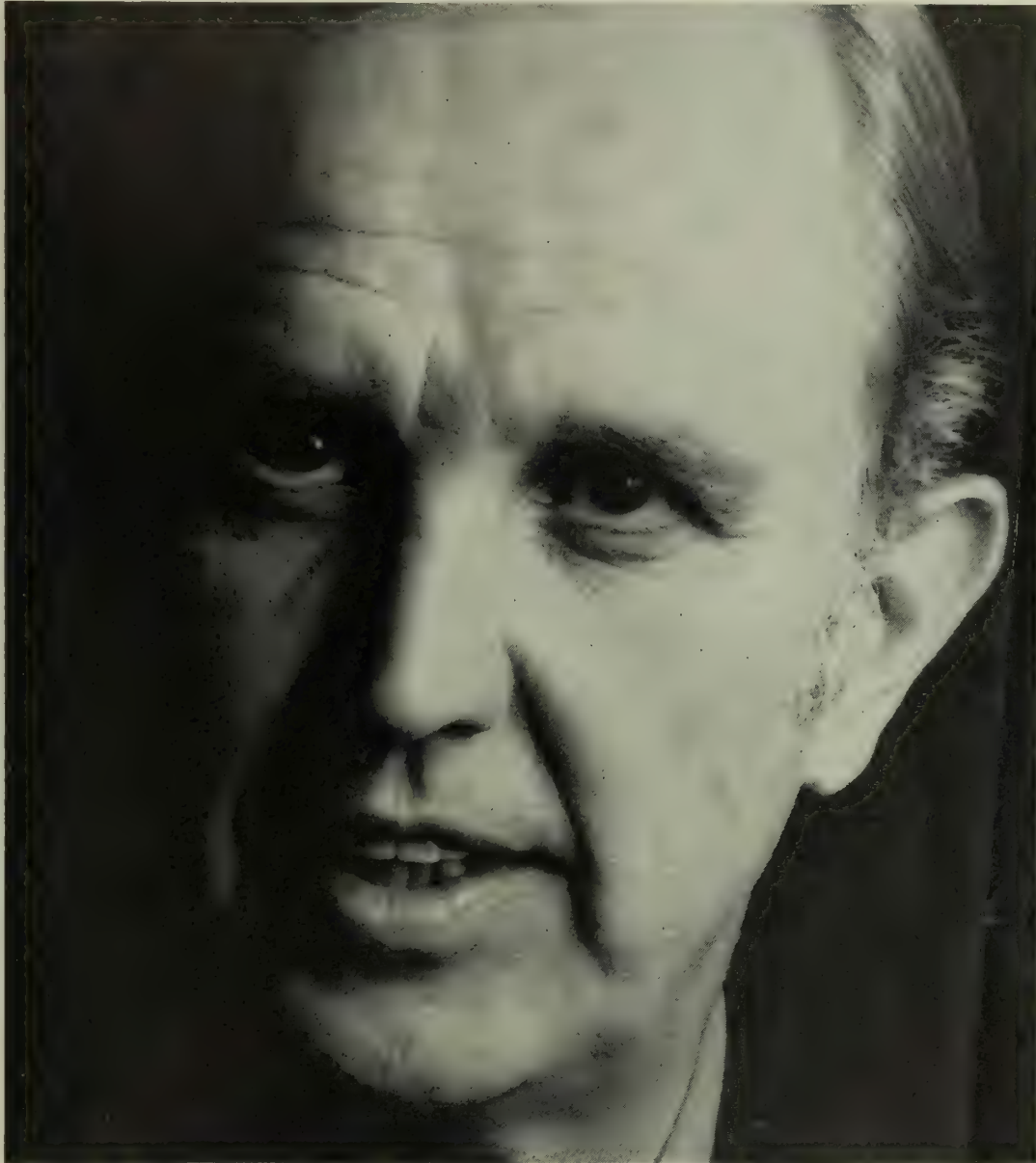
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**I've long believed in dialing my own Long Distance calls.
For one thing, it gives me a chance to get "up" for my dialogue.
For another thing, it's usually faster.
And now it saves me money, too.**

Robert Townsend, author of the best seller, "Up the Organization".



Right, Mr. Townsend.

On most out-of-state Long Distance calls, you save money if you dial the call yourself instead of placing the call through the operator.

For example, during business hours, a three-minute coast-to-coast call placed person-to-person costs \$3.30 plus tax.

But if you call station-to-station, and dial the call yourself without operator assistance, the cost is just \$1.35 plus tax.

That's less than half the cost.

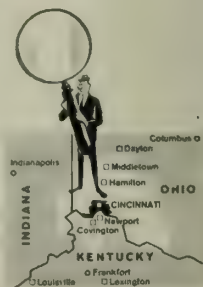
So help "up" your organization by cutting costs. Whenever you make a Long Distance call—dial the call yourself.





*"Well, that narrows it down to the
East-North-Central and East-South-Central Zones...
so why don't we take a closer look now at where the two meet:
the 3-state CINCINNATI GAS & ELECTRIC Area!"*

Tell us how close a look you want. We'll provide facts, studies, maps, or a conducted tour. Write or call James A. Wuenker (513-632-2595)
Area Development Division, **The CINCINNATI GAS & ELECTRIC Co.** Cincinnati, Ohio 45202



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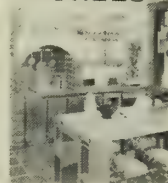
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PHOTO AND ART CREDITS: Luigi Pellettieri-Educational Photo, page 19; John Wiley, page 20; Rafael Macia, pages 22, 25 top, 52 right, 92 bottom; Bettmann Archive, page 24; Henry Monroe-DPI, page 32 bottom; George Kalinsky, page 52 left; United Press Intl, page 59 right; Ted Polumbaum, page 64; Herb Kravitz, page 71; Jerry Frank, page 73 top.

FORBES is published twice monthly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.

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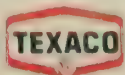
1970

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DEC. 12 TOSCA
DEC. 19 NORMA
DEC. 26 AIDA

1971

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JAN. 9 ORFEO ED EURIDICE
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OVER THE  METROPOLITAN OPERA RADIO NETWORK... SEE NEWSPAPER FOR TIME AND STATION

YOU'RE BEING ROBBED!

Virtually every time that you spend money, whether at the supermarket, department store, drugstore, or gas station, you're being **ROBBED!** You're being duped, hoodwinked, and swindled out of the full value of your money by a combination of deceptive selling techniques that include Madison Avenue double-talk, mendacious salesmanship, and insidious labeling and packaging ploys. Senator Warren Magnuson, the most alert consumer watchdog in Congress, says that deceptive selling is today's "most serious form of theft, accounting for more dollars lost each year than robbery, larceny, auto thefts, embezzlement, and forgery combined." Sidney Margolius, the dean of American consumer writers, asserts that "Never in the 30 years I have been reporting on consumer problems has the public been as widely and steadily exploited as today." And Ralph Nader, the nation's most renowned champion of consumer rights, states that "Nowadays consumers are being manipulated and defrauded not just by marginal, fly-by-night hucksters, but by America's blue-chip business firms." In short, commercial filthflamery is rife throughout the nation and the American consumer is being victimized as never before. As a partial antidote to this widespread fraud and deception, an intrepid, authoritative, new publication has been launched. Its name is **Moneysworth**.

Moneysworth, as its name implies, aims to see that you get full value for the money you spend. It rates competitive products as to best buys (as among cameras, hi-fi's, automobiles, and the like); it offers tips on how to save money (they will astound you with their ingenuity); and it counsels you on the management of your personal finances (telling not only how to gain maximum return on your investments and savings, but also how to protect your money against the ravages of inflation). In short, **Moneysworth** is your own personal consumer crusader, trusted stockbroker, and chancellor of the exchequer—all in one.

Perhaps the best way to describe **Moneysworth** for you is to list the kinds of articles it prints:

Earn 12% on Your Savings (Fully Insured)
How to Buy A Car for \$125 Over Dealer's Cost
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14 Recession-Wracked Cities Where Real Estate Is Selling for a Pittance
"Consuming Fire"—**Moneysworth** takes aim at companies that are defrauding the public.
Unsafe at Any Height—A comparison of the safety records of America's airlines.
A Consumer's Guide to Marijuana
Free Land and Free Money from Uncle Sam
Stocks that Are on the Rebound
Send Your Child to College Abroad
The Moneysworth Co-operative—Details of a price-discount co-op (for purchasing typewriters, cameras, and the like) that **Moneysworth** subscribers automatically become members of.
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Cyclamates: Did America Overreact?
How to Buy Art Without Getting Framed
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12 Ways to Put the Touch on Friends—And 12 ways to demur.

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Blindness Caused by Contact Lenses

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\$99 Fares to Europe

In sum, **Moneysworth** is a hip, trustworthy financial mentor. It reflects the quintessence of consumer sophistication.

In format, **Moneysworth** is a newsletter. It is designed for instantaneous communication and easy reference when you're shopping. It is published *fortnightly*. This ensures you that the information in **Moneysworth** will always be up-to-the-minute. Product ratings will appear precisely when you need them most (automobiles and sailboats will be rated in the spring, for

example, and Christmas gifts and ski equipment in the fall.)

In style, **Moneysworth** is concise, pragmatic, and above all, useful. It is also completely forthright. **Moneysworth** does not hesitate to name brand names (whether to laud or lambaste them), to identify big corporations when they gouge the public, and to quote the actual prices and discounts that you are entitled to and should be getting. **Moneysworth** can afford to be this candid because it carries no advertising whatsoever; it is beholden to no one but its readers.

The editors of **Moneysworth** are a team of hard-nosed, experienced journalists. The editor-in-chief is Ralph Ginzburg, creator of the flamboyant magazines *Fact*, *Eros*, and *Avant-Garde*. Mr. Ginzburg was the first editor to provide a platform for Ralph Nader to express himself on the subject of automobile safety. **Moneysworth's** publisher is Frank R. Brady, generally regarded as one of the publishing industry's shrewdest financiers. Herb Lubalin, the world's foremost graphic designer, is **Moneysworth's** art director. Together, these men will produce the first—and only—consumer magazine with *charisma*.

Moneysworth is available by subscription only. Its price is \$10 a year. However, right now you may order a special introductory Charter Subscription for **ONLY \$5!** This is **HALF PRICE!!**

Moreover, we are so confident that **Moneysworth** will prove indispensable to you that we are prepared to make what is probably the most generous subscription offer in publishing history: *We will absolutely and unconditionally guarantee that Moneysworth will increase the purchasing power of your income by at least 15%—or we'll refund your money IN FULL.* In other words, if you now earn \$10,000 a year, we'll guarantee that **Moneysworth** will increase the value of your income by at least \$1,500—or you get your money back. As you can see, a subscription to **Moneysworth** is an absolutely foolproof investment.

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**Directors and officers of any organization can be sued.
No matter how innocent they are.**



In most states, you can be sued if you're an officer of a private religious charity and somebody thinks you've exceeded your authority. You can be sued if you sit on the Board of Directors of a public corporation and some stockholder thinks you've missed too many meetings. No matter who you are, you can be sued for things you never dreamed of. Or things you never dreamed of doing.

But until recently, the only people who could get insurance through their organizations were directors and

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But even when they won a case, they lost. Lawyers and wasted time cost money.

Now we're able to consider every single director and officer of every single organization in the United States and Canada. Large or small. Public, private, non-profit, and family-owned. And we already write more Directors and Officers Liability Insurance than any

other domestic insurer.

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Side Lines

A Comforting Excursion

DEPRESSED by the business news and the foreign news, the drug problem and the generation-gap problem, one of our editors, on a gloomy day late last month, sought solace in old bound volumes of this magazine. He wondered what things had been like 50 years ago, around the time he was born, when FORBES was a bare three years old.

What he saw in those yellowing pages hardly made for cheerful reading, for, by a strange coincidence, the headlines of that day, although they contained different names, were not terribly different from the headlines of today. The article reproduced below was written, not in November 1970, but in November 1920!

FORBES

November 13, 1920

Published Every Two Weeks
B. C. Forbes, Editor

20c the Copy

When Is the Turn Coming?

That's the question on the lips of all business men. After discussing pros and cons of the whole situation with both bankers and business leaders, I would submit this as the majority analysis of the outlook: Severe unsettlement prevails today. Things probably will become worse until after the turn of the year. Already quite a number of concerns are receiving emergency treatment from banking interests.

In the wake of World War I, the U.S. was suffering what it is suffering today: a messy combination of inflation and deflation, rising prices and rising unemployment. A number of large corporations were in, or close to, bankruptcy, among them General Motors. The railroads were in such rough shape that the Government was running them. There was a crime wave, bred by Prohibition. Everyone was worried about the threat of Bolshevism, both at home and abroad.

It is interesting to note some of the stances taken on the problems of the day by FORBES' founder, B.C. Forbes. In those days, cutting wages and closing plants were considered the standard cure for poor business. But B.C. Forbes, in a vein that must have infuriated many conservatives, warned that the workers couldn't be asked to bear the full brunt of an anti-inflation policy, and he warned his businessmen readers that seeing his children go hungry could turn the mildest worker into a radical.

In quite another vein, the 50-year-ago issue of FORBES looked at the badly troubled auto industry. The worriers said the market was saturated, what with production having hit almost 2 million cars a year. A FORBES article disagreed. It pointed to the spreading network of good roads and the untapped potential of truck transport.

As he slipped the old volume back into its place on his bookshelf, the FORBESman felt strangely comforted. As he thought about his feelings, the reason for it became clear. His brief excursion into the past had made him feel more confident that a nation that had come through 1920-21—not to mention 1929—could eventually solve its present problems as well. ■

SCM offers a 2 year guarantee against price increases.

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The dread letter.

Another inflationary nibble.

They've done it before. They may do it again.

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Now, a word about our copier. It's *faster*.

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And in "copies per minute" we beat them 16 to 12.

SCM offers price stabilization, lower costs and speed. If you're interested, (and particularly if you now use a Xerox 720, 2400, or 3600), call an SCM representative and he'll show you the facts.

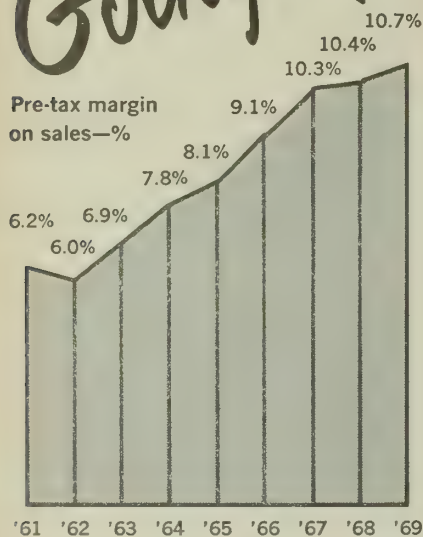
But do it soon. Before you get another letter.

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We made it to be better.**



What's Bliss & Laughlin Industries doing in the scaffold leasing business?

Going up



BLI divisions in the construction tools and equipment field have helped build a more profitable corporate structure. More than half of revenues from BLI's construction group is derived from leasing, a factor which has caused our return on sales to rise to 10.7% as shown in the graph above. Construction materials and equipment helped to boost BLI's revenues to more than double and profits to more than triple from 1961 to 1969.

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Trends & Tangents

BUSINESS

Hear No Evil

A novel antihijacking idea that might well eliminate unscheduled flights to Havana and the Mideast is being pushed by Representative Dante Fascell (Dem., Fla.) and getting favorable notice from the Federal Aviation Administration. The proposal is simply that verbal communication from cabin to pilot be cut off. All entrances to the cockpit would be secured from the pilot's side and all verbal communication thereafter would be strictly one-way, from pilot to cabin. If an emergency arose, such as fire or illness, the stewardess could press a combination of buttons signaling the pilot to take prearranged emergency measures.

Santa at 4 1/2 %

For years, Christmas club savings accounts paid no interest, despite outcries from state banking departments and efforts to force some payout by law. Now competition and automation are beginning to succeed in some states where legislation failed. The big New York and California banks are beginning to pay interest on Christmas club accounts, usually at 4.5% but sometimes as high as 5% on automatic withdrawal accounts, in which an agreed amount is automatically transferred monthly into the Christmas account from the customer's checking account.

Little Giant

The steel industry made considerable noise recently over the fact that in the first nine months of 1970, some 47 million tons of steel production, or more than half of total U.S. output, came from basic oxygen furnaces. But something else was buried in the figures, namely, the continued steady rise in production from electric furnaces. True, they produced only about 15.2 million tons in the first three quarters, but that was nearly triple the figure of a decade earlier. Alloy and other specialty steels were once the main product of the electrics, but now two-thirds of electric output is carbon steel. A major advantage of the electrics: They require far less space and to-

tal investment than does a basic oxygen furnace—which makes them popular with the steel “minimills.”

The Legman Cometh

Vowing to offer inexpensive pantyhose for “every woman under 300 pounds,” German pantyhose stand-out Schulte & Dieckhoff has launched a major invasion of U.S. supermarkets with a product selling around \$1, well below the average price of domestic brands. By aiming at the supermarkets' 12% slice of the market, with its low markups, S&D contends it can provide top-quality pantyhose at a shrunken price.

Progress Toward Yesterday

After much planning, the railroads have finally resumed coast-to-coast sleeping-car service like that our forebears took for granted. A joint effort by the Southern Pacific, Southern Railway and Penn Central, the new train takes a southern cross-country route between New York and Los Angeles via New Orleans. To stimulate tourist traffic, an overnight stop is scheduled in New Orleans, with the sleeping car used as the traveler's hotel. Setting up the new-old service was helped by the economies of a three-per-week rather than a daily schedule. ■

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READERS SAY

Heublein's Rebuttal

SIR: Your article on Heublein, in the Nov. 1 issue, contains a very serious error in fact and several misleading implications. The headline errs seriously when it says that Heublein has a "current loss in growth and profits."

The facts are that the company achieved its tenth consecutive year of record earnings per share and sales in the fiscal year ended June 30, and followed this with the best first quarter in its history. Sales were up 5½% and earnings per share increased by 12½% in the first quarter ended Sept. 30, 1970, despite the unstable U.S. economy.

To imply that the Theodore Hamm Brewing Co. subsidiary is a failure, when in actuality it has operated profitably every year since it was acquired in 1965, is an error. While you may think it only an error of editorial judgment, it is an error in fact because Hamm's has consistently contributed to our profitable corporate performance.

I would be remiss if I failed to call this to your attention.

—STUART D. WATSON
President,
Heublein, Inc.
Hartford, Conn.

Our headline was indeed a misleading one—E.D.

Putting Back Some of the Bloom

SIR: The story "TV: Is the Bloom Off the Old Rose?" (FORBES, Oct. 15), incorrectly states that among the television networks "... only one, ABC, has reported new business contracts, and these for \$3 million." The facts are that NBC-TV has maintained its industry leadership in attracting new advertisers to network television. In 1970, the "Today" and "Tonight" programs alone will account for nearly \$3.5 million in revenue from new-to-network advertisers. Added to this are revenues from nighttime, daytime and sports programming from first-time advertisers.

Despite the absence of a formally established "new business department" (which the article incorrectly credits us with having), the acquisition of new business continues to be a day-to-day function of all NBC-TV sales department personnel.

—M.S. RUKEYSER JR.
Vice President Press & Publicity,
National Broadcasting Co.
New York, N.Y.

SIR: You make reference to *TV Guide* as being the largest mass circulation magazine in the country. Allow me to correct you. *Reader's Digest* is in fact the largest circulation magazine in the country and in the world.

—WILLIAM D. THORN
Reader's Digest Sales & Services
Advertising Division
New York, N.Y.

SIR: "TV: Is the Bloom Off the Old Rose?" is one of the most perceptive articles I have read in some time.

—LOUIS T. HAGOPIAN
Executive Vice President,
N.W. Ayer & Son
New York, N.Y.

SIR: I agree with your article that TV programming is undergoing a very dynamic change—especially with the advent of CATV. I was disappointed, however, that Chromalloy's Laser Link affiliate was "conspicuous by its absence."

—WILLIAM CONLAN
Universal Public Relations, Inc.
New York, N.Y.

But Not in West Virginia

SIR: In your recent article "The Flat-Footed Shoemakers" (FORBES, Oct. 15), you indicate that U.S. shoe manufacturers have not expanded their production facilities in recent years because of foreign competition. While this may be true for the U.S., it certainly does not apply to West Virginia which has had several recent expansions in the shoe industry.

—LYSANDER L. DUDLEY SR.
Commissioner,
Department of Commerce,
State of West Virginia
Charleston, W.Va.

Get the Lead Out—Yes or No?

SIR: You point out (*Fact & Comment*, Oct. 15) what we in the lead industry have been trying to tell the public—unsuccessfully—which is that the problem of lead in gasoline is not a simple one, and that it behooves the regulatory authorities to move slowly and not be carried away by the emotionally slanted publicity on this subject. We in the industry, and St. Joe in particular, have been very conscious of the fact that lead is a toxic material if ingested by man or animal. Our records going back over 40 years do not indicate that the quantity of lead in the atmosphere constitutes a threat or hazard to health. We are far from persuaded that the elimination of all lead from gasoline is the answer to the problem of smog, irritation and the hazard of health.

—FRANCIS CAMERON
Chairman,
St. Joe Minerals Corp.
New York, N.Y.

SIR: Get your head out of the sand! The average American's blood contains over 25% of the amount of lead usually associated with classical lead poisoning, according to advisors of the Environmental Defense Fund, Stony Brook, N.Y. And that is only a part of the billions of tons of poison being poured into our atmosphere daily by the most deadly, most crippling, most expensive, and most grossly inefficient means of transportation developed by man.

—EDWIN SCHNABEL
President,
Ecological Resources
Advisory Corp.
Simi, Calif.

(Continued on page 94)

Tax breaks for business in New York

Who Says New York's Business Climate is Healthy?

NEW ENGLAND* SAYS SO: "...Personal property of manufacturers..." (machinery, equipment and inventories) "...is completely exempt from taxation in New York..."

"...special incentives in New York amount to a sizable tax break for new industry and investment."

**New England Business Review*, published by Federal Reserve Bank of Boston.

MICHIGAN* SAYS SO: The combined state and local tax bill for five hypothetical manufacturing firms was lower in Buffalo, N.Y., than in five other major industrial cities—Detroit, Cleveland, Milwaukee, Indianapolis and Newark.

*Tax study commissioned by the Citizens Research Council of Michigan.

PENNSYLVANIA* SAYS SO: The New York state-local tax bill was less than that for New Jersey, Ohio and Illinois in six out of seven industrial groups analyzed; New York's was less than that of five other states—Michigan, West Virginia, Indiana, Massachusetts and Maryland—for all seven groups of industries.

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ENVIRONMENTAL CONTROL

Technologically there is really very little new with environmental control. What is new is the recently aroused public awareness of the problem and the urgency for action created by new legislation and better enforcement.

Over the years, Austin has solved many hundreds of problems in environmental control and the elimination or reduction of pollution. These were in a wide range of industrial activities—including process, forest products and mining and metals industries—both at home and abroad. A few examples are:

1. For the production of iron ore pellets. Recover from 350°F furnace top gas discharge, 2100 lbs./hr. of abrasive iron oxide dust, with

efficiencies of 100% for particles 30 microns or larger and 85% for those to 1 micron.

2. For a paper manufacturer. Industrial waste treatment for kraft pulp mill. Treatment facilities consisting of solids removal and disposal by incineration and BOD reduction by an aerated lagoon, followed by a post-polishing lagoon. Control of odor and particulate matter.

3. For a chemical processor. A waste reclamation system to turn a pollution contaminant into a saleable by-product. A catalyst plant waste stream was treated in a solids-contact clarifier, sand filtered, partially evaporated, steam filtered and dried to recover sodium sulfate.

4. For a pharmaceutical manufacturer. Complete facilities for handling all liquid process wastes. A high solids content, high BOD spent fermentation beer was concentrated by evaporation for incineration or drying and sale, depending on the variable nature of the constituents. Miscellaneous washwaters and low BOD wastes were combined with treated sanitary wastes for deep well disposal.

We will be pleased to bring this experience to bear on your environmental and pollution problems and we will serve you with the urgency currently required.

Please direct your inquiries to The Austin Company, Cleveland, Ohio 44121.



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Fact and Comment

TWENTY THOUSAND TIDES AGO

The sweeping tides of Normandy were the greatest and only allies the Nazis had in their fierce, desperate effort to repel Allied forces on D Day, June 6, 1944. The two of them combined to pile high the dead on Omaha Beach. Weeks later, when the front had been pushed back so that much of France was free, the outfit in which I was a machine gun section sergeant landed on and traipsed across the incredibly crowded stretch of sand. After bivouacking in the Normandy hedgerow country, we trucked by Red Ball Express across France and into battle near Amiens.

A little while ago I visited Omaha Beach for the second

time in my life. In the intervening 26 years, nearly 20,000 tides have come and gone and little remains visible of the greatest military landing in man's history of endless warring. What's to be seen is mostly in a superb museum and a panoramic cemetery. The cemetery memorializes with dignity and grandeur the event and the dead, and moves one deeply.

Before they die less precipitously and/or in lesser purpose, Americans who can should visit World War II's Normandy Beach. Such seeing and remembering helps a man's perspective.

COMMON SENSE & SOMBRE WARNING

The costly strains on casualty and liability insurance companies continue worsening. Profitability is the first ingredient of corporate viability. If casualty companies are not themselves to become casualties, we the insured are going to have to curb our own greed instead of constantly alleging theirs.

Mostly, we all carry casualty and liability insurance of assorted sorts to prevent personal financial wipeout from fire, fraud, riot, theft, loss, accident, etc. Because premiums are high, most of us tend to make claims at the drop of a silver teaspoon into a crevice and/or garbage grinder. Processing miscellaneous minor claims is often administratively and clerically as costly as major ones.

We carry such insurance mainly, to protect against catastrophe, but we are helping to soar the cost by nit-picking companies into unprofitability.

Sure, there's much that able or abler managements can do to keep insurance companies unbroke and free. There's

more, though, that we consumers can do by ceasing to claim the cost of new slipcovers or a new sofa for every cigarette burn.

Remember, the alternative to a private insurance industry is government insurance; and if you think we have problems now, wait'll you try making claims or getting a settlement from a federal insurance agency. It'll have to come to that though, if private enterprise finally has to abandon most casualty and liability insurance because of unprofitability.

As George K. Bernstein, Federal Insurance Administrator, warned recently: "We are going to solve the insurance availability problem. We hope to solve it in a way most consistent with the private enterprise system and state regulation of insurance. But to the extent that private industry and the states refuse to accept their responsibility, there is going to be greater federal control in the insurance field."

HAS ANYBODY NOTICED?

The husband of the most famous Martha since Washington's has figured more prominently and more consistently in all manner of news and editorial comment than any other Administration Cabinet member. Attorney General Mitchell is closer to the President, more consulted by him than anyone else. From his sweeping, toothsome crime-fighting legislation to his Supreme Court picks to his Campus comments to his Civil Rights enforcement and a multiplicity of things in between, the Attorney General has generated almost as much condemnation and/or commendation as Spiro Agnew.

There has been almost no notice, however, paid to his

extremely effective fight against just plain criminals.

As a result of his direct direction and drive, more heretofore untouchable Family Chieftains of organized racketeering, vice and corruption now languish in jails or dangle by dwindling legal threads in court than ever before. And before he's done, at least some cargo may even pass through Kennedy from consignor to consignee intact.

Nobody seems to have noticed that Mr. Mitchell is the greatest gang buster ever to have occupied the Attorney General's office. While ad infinitum busy with other things, he seems to have found time to take seriously his duty as chief law enforcement officer in the United States.

POLLUTION FIGHT FOOTNOTE

Moved by vestiges of parental poundings on the virtues of thrift, I insist my wife buy bottles of pop and mix with screw tops whenever available so that what isn't drunk will keep its fizz till next time.

This directive recently ran smack up against an ultimatum from our concerned 15-year-old daughter who de-

mands the banishment of one-trip bottles on the basis that they add litterly to pollution. Unfortunately, it seems screw-top bottles come in no other except the No>Returns.

Now couldn't bottle makers put screw tops on returnable bottles of pop and keep us both happy?

SPECULATORS COOLING IT?

There has been much speculation that the long stock market decline had cooled speculators' ardor. While it may have sharply reduced their stacks of chips, the stock price depression hasn't chilled the gamblers' fever one bit. What else could possibly account for the spectacular gyrations in the price of Memorex, for instance?

In August it sold as low as 44½ and a month later reached 99½, going up and down as much as a dozen points a day. Obviously, neither intrinsic value (whatever that is), present profits nor future prospects justify such wild price performance. Only speculative fever could explain that sort of rise 'n dive, dive 'n rise.

LIKE THE ELEPHANT

When it comes to hurt—financial, mental, physical—we all tend to have long memories.

If FORBES many years ago referred to the CEO of a major company as paunchy, for instance, he will never forget it and never think kindly of us despite the fact that the entire article might have been a penetrating analysis of his brilliant stewardship. The adjective will be remembered long after the encomiums are forgotten.

As for financial hurts: I have never forgotten, nor is it likely the other oldtimers around here will ever forget, the

way FORBES' then principal paper supplier, West Virginia Pulp & Paper Co., cut us off at the first moment they could legally do so when World War II controls were first eased. We had to scramble around buying comic-book-type pulp paper to keep publishing before the magazine could establish a new source of supply in those extremely paper-tight days.

Shakespeare says that the good that men do is oft interred with their bones, the evil lives on. I'm inclined to agree.

MIS-STITCHED SAMPLERS

In one of the best stitched, liveliest, impertinently pertinent magazines in the country, *New York Magazine*, Mary Ann Madden runs a weekly competition unmatched

Parking is such sweet sorrow.

Nobody knows the trouble I've been.

You shall know the truth and the truth shall make you flee.

We have pet the enemy and he is ours.

Beware the ices of March.

Practice makes perfect.

for witty hilarity. One recent contest invited readers to submit examples of mis-stitched samplers altered in meaning by the substitution of a single letter. Some of them:

A friend in need is a friend in need.

It is better to light one candle than to stumble in the park.

It's a sin so tell a lie.

In the spring a young man's fancy nightly turns to thoughts of love.

It is more blessed to give than receive.

—MALCOLM S. FORBES,
Editor-in-Chief

1. Our two-minute-reading-time tour begins in Alexandria. The funny, skinny "Founder" Houses you see here were originally built as tax dodges. But that was a long time ago. Today, Virginia taxes are 40% below the national average.

2. Around Arlington, you'll be right on Uncle Sam's doorstep. You'll be close to government experts, great libraries and research centers.

3. As you tour Reston, the planned community of the future, think about your markets of the

present. If your business is like most others—some 60% of your major markets are within overnight shipping distances of this place.

4. At this point, you will visit one of the most beautiful airports in the world. Dulles International. If you do business beyond the domain of Uncle Sam, this airport can save you that big detour through New York.

5, 6, 7, 8. The names read like a train announcement:

Leesburg, Warrenton, Woodbridge and Manassas, where Stonewall Jackson got his name. But the story here isn't just transportation. In this part of the country, you enjoy reasonable construction costs and a work force determined to get things done. You're away from the problems, but not the markets.

9. In the air now, you get a view of Fredericksburg sites that former visitors (such as Washington, Lafayette, Marshall and John Paul Jones) were never able to enjoy.

10. Then you fly along the Rappahannock and the Potomac. And learn that there are still water front sites available here. You can also learn something else. When you call (703) 771-3767 for site or tour information, you get it. That's the number of J. Randolph Perrow, Manager, Area Development, Virginia Electric and Power Company, Richmond, Virginia 23209. And he does everything he can to help you find a plant site here. Where things are inexpensive but not too far from your markets.



Tour Vepco's Northern Virginia in two-minutes.

**To take care of your wagon 50 years ago,
all you needed was oats for your horse and a hammer and nails.**

**But today if your wagon breaks down, you have to open a repair shop,
hire a couple dozen men, and shell out about 50 grand.**

It's called progress.

Today, businessmen get a tear in their eye when you talk about horses and wagons and hammers and nails.

"Ah, the good old days," they say.

Today, businessmen get a tear in their eye followed by a pain in their stomach when you talk about money, too.

"Ah, the good old days," they say again, a little more emotionally this time.

Well, the good old days are over.

You can't repair your wagon for the price of hammers and nails anymore.

After you buy your equipment, it can cost you a bundle to take care of it.

But today, at last, businessmen are beginning to get the idea that there's a better, easier way than buying all their equipment. (This year, more than 10 billion dollars worth of equipment

will be leased by American business.)

This isn't any mystery to us.

After all, our Transportation division has been leasing tank cars to American business for years.

(It's not just chance that three-fourths of our new tank car production goes into our lease fleet.)

Yet some businessmen still insist on buying.

Maybe they don't know that if they sign the lease, they sign away their service and maintenance problems.

It would take them millions of dollars and years of experience to match our service and repair shops.

Or that if they sign the lease, they never have to worry about selling the car when they're through with it. That

becomes our problem.

Or that if they sign the lease, the car is theirs for the life of the lease, not the life of the car. That way, as innovations come along, they're in a better position to modernize their whole operation with new equipment.

What's more, when they work with us, they can call upon any of our other divisions for assistance on any job.

It can be for research. Or storage. Or packaging. Or even banking.

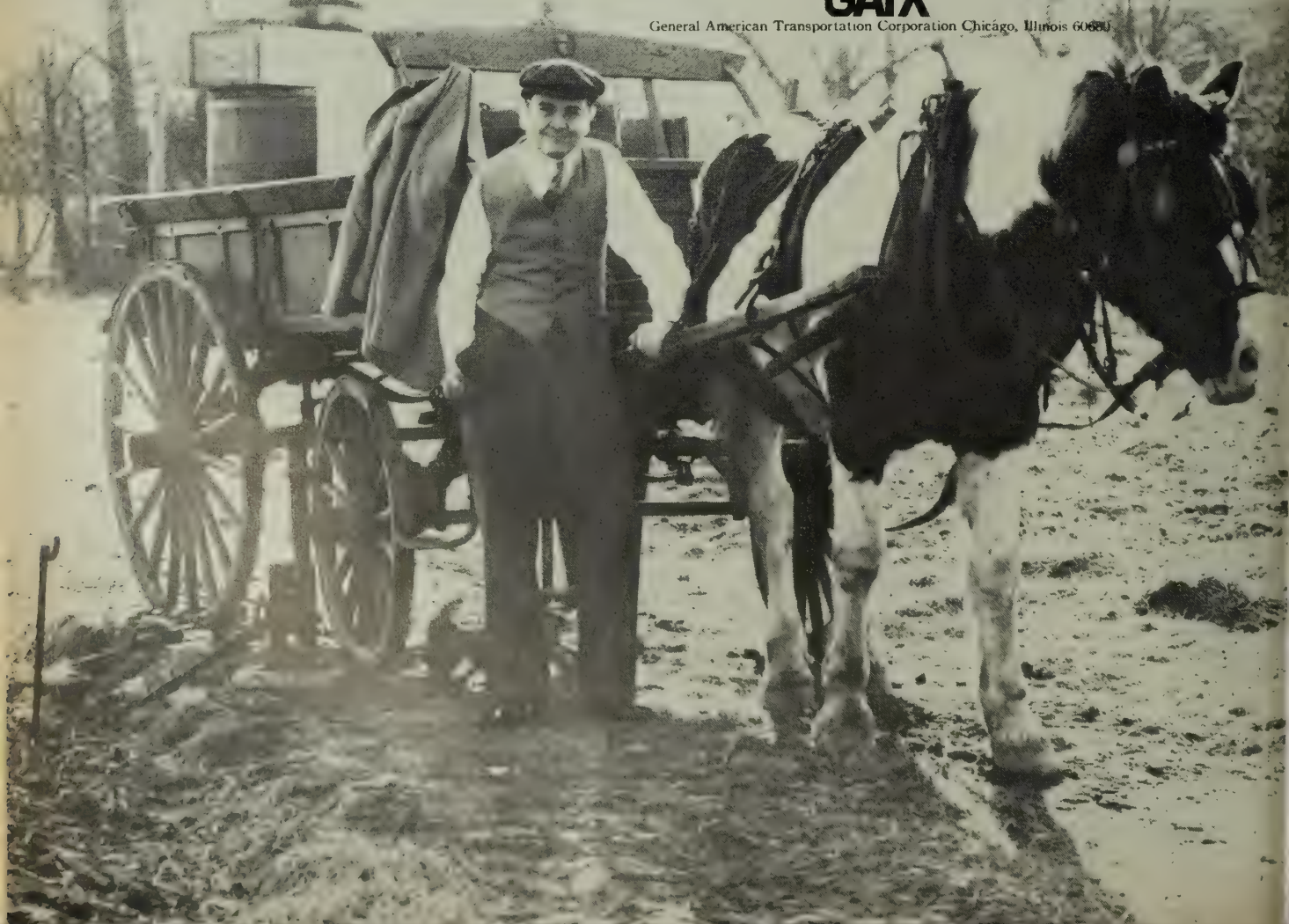
So now, perhaps businessmen who have been led astray in the past will learn the folly of their ways.

Because if they buy everything today, they could end up with nothing tomorrow.

And that isn't progress.

GATX

General American Transportation Corporation Chicago, Illinois 60680



Paper Empire?

A couple of Kansas City accountants have built into \$350 million in market value a business based almost entirely of paper work.

RARELY has so much been built upon so little: Here's H&R Block, Inc. with no plants, no ownership of natural resources, no patents, few proprietary products and with total equity capital recently of less than \$12 million. Yet its stock early this month had a total value of about \$350 million. At 55 times fiscal 1970 earnings, 30 times book value, H&R Block is one of the most richly priced Big Board stocks.

This little company (fiscal 1970 revenues about \$53 million) currently has a market value comparable to such big, asset-rich and well-managed U.S. companies as UAL, Inc. and Anaconda. In effect, investors are putting a price of a third of a billion dollars on the company's goodwill, on its prospects.

What's behind all this optimism?

H&R Block, of course, are "the income tax people." Last year, they prepared returns for nearly 7 million people, few of them with income much over \$15,000. Behind well over 4,000 spartan storefronts across the U.S., they offer to prepare people's income tax forms for fees ranging from \$5 upwards. Mostly they prepare small returns; the average fee is \$11.75. At income tax time there is a high-powered advertising campaign.

H&R Block are real people, brothers Richard Bloch (they changed the final "h" to "k" because it looked simpler), 44, and Henry, 48. From a small Kansas City, Mo. bookkeeping firm do-

ing \$20,000 in yearly business in 1955, H&R Block has become the nation's largest tax service, preparing almost 10% of the tax forms in the U.S.

The way H&R Block has evolved is simplicity itself: no expensive locations, no elaborate decor or equipment. Just kitchen-style formica tables and chairs—in space usually leased for only four-month periods. Some of the offices, about 52%, recently were company-owned, the rest franchised.

Plant and equipment? Headquarters are in a small, two-story cinder-block building in Kansas City, where the chief decorations are big blowups of founders Henry and Richard. Says Henry Bloch: "We don't have more than \$2 million invested in buildings and materials, and this won't be much different when we're doing 50% of the nation's tax returns."

Close to the High

It's talk like this—about low capital needs and an unbounded market—that may have helped to make H&R Block one of the hottest stocks on the market; to keep it near its all-time high in spite of one of the roughest bear markets on record; to run the stock from well under \$1 on the current shares to today's 60-plus; to create for the Bloch family a fortune worth over \$150 million on paper.

The question is: Is the optimism—\$350 million worth of it—justified?

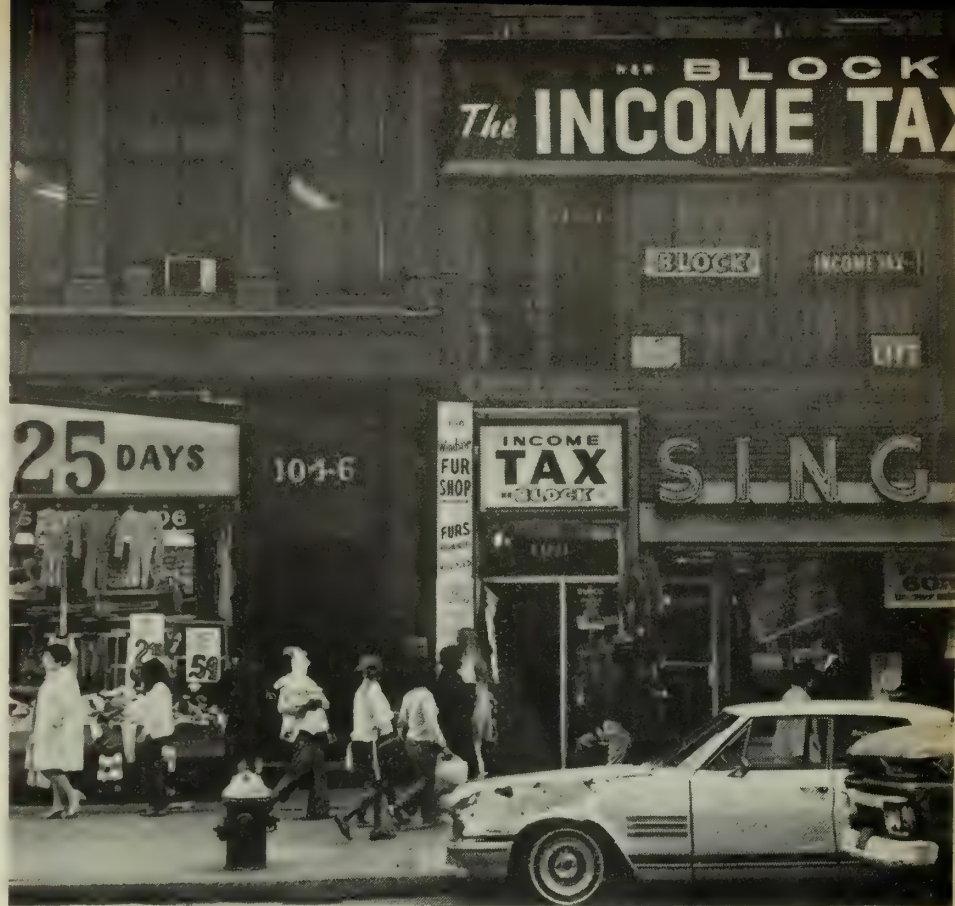
Maybe not.

Competition, high-powered competition, is springing up. For what the Blochs have discovered, others know, too. Peter Sammon, who was instrumental in setting up the Chase Manhattan Bank's Tax Service and is now at Irving Trust, says: "You can't knock success, and my impression is that the Blochs have a pretty good product. But they may have reached their peak. My impression is that they're spread about as thin as they can get."

It used to be true, as Henry Bloch liked to say, that "the company's greatest competition was the individual doing his taxes." Now such giants as Sears, Roebuck and Montgomery Ward and many banks across the country are entering the field mainly with computers—whereas the Block offices still work by hand.

The convenient locations of the big retailers and the big banks will make for serious competition. And faced with this electronic competition, the Block offices may be unable to pass on rising costs to the extent they did in the 1970 fiscal year when a price increase of approximately 10% apparently accounted for the bulk of the company's earnings gains.

A Block officer has said that the company isn't worried by computerized competition. The theory apparently is that small returns can be handled more efficiently by hand. Another factor may be that most Block customers are "little" people who may



be afraid of banks and big companies and reassured by the bare Block offices—not to mention the free coffee.

But to the extent that this is true, the human touch is no Block monopoly. Some of the roughest competition comes from ex-Block franchisers and city managers now on their own. EBS Tax Service of St. Petersburg, Fla. recently had over 200 storefronts, and all its key personnel were ex-Block men. Income Tax Savers of Long Island, which recently had about 22 offices, is a Block franchise that split off when contract renewals came up. In the tax business, most clients probably will go back to where their taxes were prepared in the first place. David Grutman of Income Tax Savers put up new signs and he was in business. Irving Trust's Sammon predicts: "You'll see more and more of these split-offs in the next few years as other contracts come up for renewal."

In fact, a major Block weakness may be in its franchise contracts. In the early days, the brothers Bloch apparently did not know what a good thing they had. To expand faster, they gave to a number of individuals the right to franchise or operate regional Block offices in some very rich territories. They did so under very generous terms that did not yield much money for the Block firm. In the early days, Henry Bloch says, franchise royalties came to only about 2% of the franchise holders' gross revenues.

Some of the contracts were virtually irrevocable. But in other cases, individuals had the use of the Block name under employment contracts revocable after two years. These individuals were called city or regional managers rather than franchisees.

In 1967, apparently deciding that it had been overgenerous, the company decided to cut back the city and regional managers' take. Many of the two-year contracts came up for renewal in December 1967—just ahead of the fat tax season. H&R Block told holders of expiring contracts that they would have to accept new contracts sharply cutting their share. Either that or lose their territories. Most of the managers capitulated.

But others fought back, and a number of lawsuits ensued—both from former managers and from franchisees. Some of the suits involved alleged violations of the Sherman Antitrust Act; others involved alleged illegal termination of contracts. Last May a California jury awarded \$2.2 million in damages to John C. Jarrell, a former San Diego city manager. Another case was settled when Block bought the franchise, but others charging damages running into millions of dollars are still pending.

If Block ultimately loses a good many of these suits, the results could be serious for a company with earnings of \$6 million and net assets of only \$12 million. Block's accountants, Touche Ross & Co., found these suits so serious they gave a qualified opinion in the 1970 annual report—"subject to any liabilities which may result from the litigation referred to. . . ."

There are still a number of individuals in Oklahoma and Arkansas, for example, who still hold franchises under very generous terms, but others are paying quite a stiff price. A recent H&R Block prospectus reveals that a



Henry Bloch and his brother each get only \$36,000 in salary. But every dollar they leave in the company is capitalized by the market as \$60—and the brothers own almost half the stock.

group of large franchise holders did nearly \$20 million in volume but paid only \$1 million in royalties last year; smaller holders doing only \$15 million paid \$4 million in royalties.

How can these smaller franchise holders afford to pay so much? Most of these are so-called satellite franchises. They are located in small towns, mostly in the offices of local lawyers or insurance brokers or real estate dealers. To them Block furnishes only a manual of procedure and the right to display the H&R Block sign. For this right, the satellites pay Block as high as 50% of their gross on

the first \$5,000 and 30% on anything above that.

But for how long can Block count on such high terms from one group of franchisees? It could well be that many of them will cut the Block connection at the end of one year but keep the business that has been built up. Thus some of the satellite royalty fees may be one-shot affairs.

Moreover, there are some other very hard questions to be asked about Block's future profits. Because of the high labor content in Block's expenses, there doesn't seem to be much favorable leverage as volume goes up; in recent years, overall costs have risen at least as fast as volume. As competition for sites, business and personnel increases, the leverage might well work in reverse.

Financial figures aside, yet another difficulty is that of getting and training experienced personnel. Obviously this is a problem when you're training 40,000 people for a seasonal business. In time this could affect the quality of Block's service.

Diversification? It's small at best. Other revenues, from items like tax work-books, were just \$3 million.

Come what may, the brothers Bloch and their families should never have financial worries again. In 1968 they sold over 515,000 shares of their stock, for \$18 million; the company, of course, got none of the money.

Now, with Eastman, Dillon, Union Securities & Co. heading the offering group, the brokers and a few others are planning to sell another 600,000 of their own shares, about 10% of the company. This time the proceeds will amount to about \$35 million.

Were this a stock offering by the company, rather than by stockholders, at least it could be said that the company's current fame and prosperity were serving to bolster the company against possible future adversity. But that is not the case.

By giving it a paper value of \$350 million, the market is betting that the profits of the Block company will continue to grow at a dizzy rate for a long time. After all, to justify a price of \$60-plus a share, a company should hold promise of earning \$5 or so a share one day—\$30 million or so a year. But are the prospects that good for this relatively narrow business, which has yet to prove that it can diversify successfully?

Of course, nobody knows the answer, but it's not reassuring to recall what has happened to a good many other hot little companies that went public. In more cases than the investment community likes to remember, the public was invited in just around the time the company was peaking. ■

Age of Reason

The North Sea oil discoveries show promise—not wild promise, but good promise. Maybe that's all to the good.

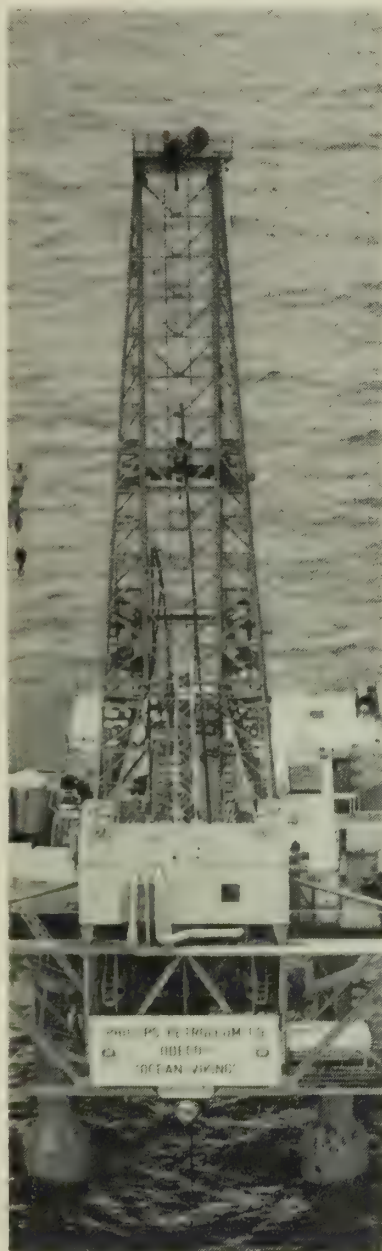
IT MAY BE that the madness of crowds that characterized the investment picture in the last decade is not going to prevail in the 1970s. Or it may just be a case of once burnt, twice shy. But whatever the cause, the new oil discoveries in the North Sea have not evoked anything like the speculation in stock prices or the talk about global significance that greeted the Alaskan North Slope oil finds two years ago.

Then, the American-Canadian Arctic was said to hold the key to the petroleum future. As a result, some observers kept saying, the contentious Middle Eastern oil states had better tailor their demands accordingly. The stock of Atlantic Richfield, a chief beneficiary of the North Slope discovery, shot up 170%, and British Petroleum's rise was even more dramatic. (Both stocks by now have come all the way down again.)

The North Sea, where discoveries have been reported since the beginning of summer, has been different. Five good discovery wells have been announced, including one that led to an oil field holding perhaps 2 billion barrels with production commencing next spring. The outlook is good for more successes in the sea between Northern Europe and Scotland. Yet the reaction by oil people and by investors has been, on the whole, conspicuously calm and reasoned.

To be sure, there was a mild flurry of exaggeration when Phillips Petroleum announced in June that its Ekofisk discovery in the Norwegian sector of the North Sea was in fact a "giant" oil field. "Giant" to Phillips means better than 1 billion barrels of reserves, but a spokesman for Belgium's Petrofina, one of Phillips' partners in the discovery, was quoted immediately as saying that Ekofisk held over 7 billion barrels and that the North Sea "may profoundly change traditional supply patterns" to Europe—Libyan and Persian Gulf papers please copy.

Well, Phillips stock rose some 40% but has settled down at around \$29 a share, well below its historic high of \$38 reached in 1968. And the changing of traditional supply patterns was quickly discounted by the recognition that Europe, including Britain, now consumes over 4 billion barrels of oil a year and will be consuming more than 8 billion by 1980. Even if the most wildly optimistic 10-billion- to 15-billion-barrel estimates about the North Sea oil deposits were true—



Cruel Sea. The North Sea is no lake, as oil drillers know. But with markets for its oil so near, high winds or rough seas won't stop development.

which is, incidentally, about the size of present North Slope estimates—Europe would have precious little extra bargaining power with its North African and Middle Eastern suppliers.

Right Stuff, Right Place

But if the skeptical approach is healthy, to dismiss the importance of the North Sea finds would be foolish. The most obvious fact about North Sea

oil is that it is within a few hundred miles at most of major markets in Britain, Holland and North Germany. Other advantages of the oil found to date is that it is extremely low in sulphur and so nonpolluting, and very high in quality and so capable of yielding good profit. And its development will be brought about quickly in politically stable, oil-hungry Europe.

Phillips plans to begin production from Ekofisk next spring at 40,000 barrels a day, with increases to 300,000 barrels daily by late 1973. Phillips' share in that production will go far in making the Oklahoma-based company sufficient in crude oil, solving a chronic problem; and that does not count the company's discoveries in two other North Sea locations as well.

Standard Oil of Indiana's Amoco International subsidiary leads a group that has discovered oil on another Norwegian sector formation called Torfelt. One test on Torfelt has shown great promise. Amoco will drill further to see if Torfelt, which is only six miles from the Phillips field, lives up to the 1.6-billion-barrel size the Oslo rumors have assigned to it. Indiana Standard's group—which includes Texas Eastern Transmission and Amerada Hess—also has had shows of oil in the British sector of the North Sea. Tenneco, drilling on behalf of itself and partners, has hit a good discovery well in the sea off Holland, and Jersey Standard is doing more drilling to see if its discovery well off northern Norway indicates a large field.

Five years ago the North Sea was as hot an area for Wall Street as it was for the drilling rigs. The discovery of gas beneath the sea off England conjured up all kinds of visions that North Sea gas was going to remake the energy markets of Europe. It hasn't. No such cosmic purpose is claimed for North Sea oil. But it should not be overlooked that Europe's petroleum markets—both for fuel and petrochemical feedstock—are growing some 10% a year. The growth guarantees both a ready market for the North Sea oil and a good profit that some astute analysts put at 75 cents a barrel vs. perhaps \$1 for U.S. oil and, under its new tax laws, roughly 30 cents for Libyan.

Many of the ballyhooed wonders of the 1960s, such as Alaska's North Slope, are turning out to have been less than earth shattering. The North Sea has no such glamour, but it promises a better return. ■

International Marriage

Not true love but the American Challenge explains the pending merger of Italy's big rubber company with Britain's.

PUTTING together a big, proud British company with a big, proud Italian company is not easy. It sounds like one of the least likely events in the world. But that's what's happening in the tire business in response to the growing strength of U.S. corporations in the European market.

Before the year is out, in fact, Britain's leading tire company—the Dunlop Co., Ltd., and its counterpart in Italy, Pirelli, S.p.A.—will leap across national boundaries to create Europe's largest tire manufacturing combine, the equal of Firestone (\$2.3 billion sales) and a strong second only to Goodyear (\$3.2 billion). Moreover, they have done so by a method so novel and ingenious as to provide a pattern for other European companies in their efforts to resist the American juggernaut. "The automotive industry and its component industries compete on a worldwide scale," says Sir Reay (pronounced Ray) Geddes. "This merger will make us fully able to meet competition all over the world."

The American Challenge has been particularly intense in the tire industry. The U.S. tire companies went abroad decades ago—even long before the U.S. automakers—and depend on Europe for a healthy share of their business—31% for Goodyear, 25% for Firestone. This has created problems not only for Dunlop and Pirelli but also for Michelin and other European tiremakers. In Italy, for instance, Goodyear, Firestone and other U.S.

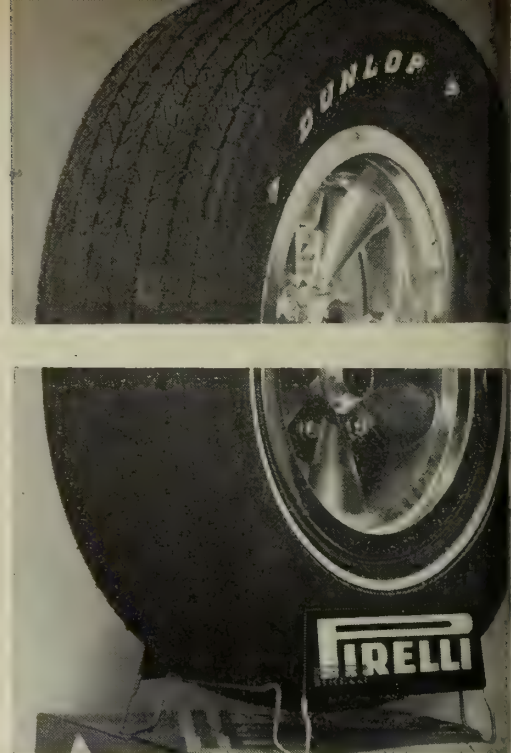
companies are believed to have gained between 15% and 20% of the market, quite a slice for Pirelli and its major Italian competitor, Ceat, to give up. And the U.S. companies have been growing equally menacing elsewhere.

Long the friendliest of competitors, Dunlop and Pirelli neatly complement each other. Dunlop is primarily a manufacturer of conventional cross-ply tires; Pirelli concentrates on radials. In Europe, Dunlop has perhaps 18% of the market, Pirelli 12%, as against 12% for Michelin, the next largest competitor. In Europe, Pirelli crosses Dunlop's path only in West Germany: Elsewhere, where Dunlop is active, Pirelli stays out; where Pirelli is active, Dunlop stays out. Outside of Europe, Pirelli is active mostly in Latin America, Dunlop in the Commonwealth and North America.

The two companies have even diversified into different areas—Dunlop into sporting goods and precision-engineering products, Pirelli into paper, electronics and cables.

Eventually, of course, both marketing organizations will work as one, with Dunlop pushing Pirelli products where Dunlop is strong, and Pirelli pushing Dunlop products elsewhere.

The greatest benefits should come from a pooling of research and development, however. Explains J. Campbell Fraser, a Dunlop director: "In the Seventies and Eighties, competition will be more and more in terms of innovations. In the U.K. we have a



home base of about 55 million people. That isn't big enough for the kind of R&D we'll need. Pirelli has an even smaller home base, about 45 million. By merging, we'll have a home base of 100 million, enough for the kind of R&D we'll need around the world."

Adds Roy Marsh, group marketing controller: "In recent years, there have been more changes in tires than in cars, and they're coming faster and faster." Each change has also been more expensive, and the merged company will be able to share costs, know-how and a greatly enlarged pool of scientists, engineers and technicians.

As it is, that pool is one of the most capable in the world. Michelin may have invented the radial tire, for in-

The Electrogas Builders

Utilities see substantial profit opportunities for themselves in real estate—provided they can convince the SEC that it's legal.

A MONTH or so ago Texas Eastern Transmission announced a \$1.5-billion plan to redevelop 74 acres of downtown Houston, Tex. over a 15-to-20 year period. That same week in Washington, the Securities & Exchange Commission turned down an application from American Electric Power to start a \$2-million housing venture.

That the two events were simultaneous underlines the current confusion over whether utilities can or can not diversify into the real estate business. A few are already in it. More are waiting to jump in if the regulatory

picture clears up. At stake are two things: a profitable sideline for the utilities, and the potential of generating billions of dollars for new housing and urban renewal.

The problem right now is the Public Utility Holding Company Act. A generation ago, the Government clamped down on the utility holding company pyramids that had been the stock swindles of their day. Nobody wants to go back to those days. Says Donald C. Cook, president of American Electric Power: "We'd never think of getting into the brassiere busi-

ness. But housing development makes a lot of sense. That's why this SEC ruling is not the end of it."

Meanwhile, the law is a jumble of contradictions. Texas Eastern Transmission, for example, is a pipeline company, and pipeline operators don't come under the law. TE was free to diversify like El Paso Natural Gas and Tenneco before it—and it did.

Niagara Mohawk Power, as an intrastate utility, doesn't come under the law either. NMP built three urban renewal projects in upstate New York cities in the past three years.

But AEP (an eight-utility holding company), Mississippi Power & Light (a subsidiary of Middle South Utilities) and Michigan Consolidated Gas (a subsidiary of American Natural Gas) all come under the law, so they all got adverse rulings from the SEC.

stance, but it was Pirelli that discovered a way of making such a tire on a textile rather than on a steel base.

Nobody expects the merger to come easily. After all, it's difficult enough to merge two \$1-billion U.S. companies, where everyone shares the same language, the same background and education, the same tax and labor climate. Indicative of the problem: The accounting methods in the U.K. and Italy are so different that as recently as last month Fraser was unable to say which company is the bigger moneymaker, though according to one calculation, Dunlop earned \$26.4 million in 1969, Pirelli only \$8.9 million. More important, by history and tradition Dunlop and Pirelli are radically different companies. Dunlop is widely held and management controlled. Pirelli is dominated by the Pirelli family.

On the other hand, there is that great mutuality of interest, plus the fact that Dunlop's Chairman Sir Reay Geddes and Pirelli's President Leopoldo Pirelli have long been personal friends. Which is how the merger came about in the first place. For years the two men talked idly about the possibility of getting together, and last year decided to appoint a committee to look into the matter seriously. "In March of last year," says Fraser, "the committee members concluded that a merger was possible. Our companies were complementary. We personally were compatible. We had the same ideas about where we were going. We both were solidly based in our respective countries. And we both were about the same size."

Dunlop in 1969 had sales of \$1.2 billion, Pirelli of \$1.1 billion; Dunlop had assets of \$977.5 million, Pirelli of \$1.2 billion. Had this rough similarity

not existed, the chances are that either the British government or the Italian government would have scotched the deal. The Italian government almost certainly would not have stood for Pirelli coming under British domination, any more than the British government would have liked the notion of Dunlop becoming an Italian company.

As it is, Dunlop-Pirelli will be a partnership of equals. Dunlop is not taking over Pirelli. Pirelli is not taking over Dunlop. There will not even be any exchange of public shares. Instead, each will acquire an interest in the other's operating subsidiaries. The British and Italian companies will operate on their own. Essentially what they have done is create an organization with four legs and one head—and the legs are twisted around each other. (Pirelli already had two legs: Pirelli Milan and Pirelli Switzerland.) There will be:

1) Dunlop Home, containing Dunlop's activities in the U.K. and Europe. Dunlop will hold 51%, Pirelli 49%.

2) Dunlop International, which will be in charge of Dunlop's activities in the rest of the world. It will be Dunlop 60%, Pirelli Milan 20%, Pirelli Switzerland 20%.

3) Pirelli Milan, looking after Pirelli operations in the Common Market: Pirelli Milan 51%, Dunlop 49%.

4) Pirelli Switzerland, for all other Pirelli operations: Dunlop 40%, Pirelli Milan 20%, Pirelli Switzerland 40%.

Above this will be a committee which gradually will weld the combine into a coordinated operating unit. Will it work? Will it prosper?

At least two such arrangements have done so before.

There's a \$3.6-billion British-Dutch food company called Unilever.

And a \$15.4-billion British-Dutch oil company: Royal Dutch/Shell. ■

Keeping the Pace

ON WHAT WAS ONCE 152 acres of cotton land near Huntsville, Ala., Dunlop recently completed, at a cost of \$23 million, what it believes is the most efficient tire plant in the world. There, only 475 workers can turn out 10,000 tires a day. Dunlop's old plant in Buffalo, N.Y. requires 1,100 workers for 16,000.

Dunlop is not out to beat the U.S. tire companies on their home ground. "To try that would be eccentric," says Chairman Geddes. Dunlop's share of the U.S. replacement market has increased to about 4%. Geddes wants to keep up that pace. For Dunlop, that 4% has meant 6 million tires, 10% of the

company's entire 1969 sales and 13% of profits.

In Europe the radial tire is taking over the market, but Dunlop's Huntsville plant produces only conventional tires. Marketing radials poses two problems: First, all four tires on the car must be radials. Second, unless a car is designed for them, radials won't give as smooth a ride.

Says Dunlop Director Fraser: "Some day U.S. auto companies may build cars for radials, and we'll be prepared. Meanwhile, the U.S. tire market has been increasing at 6% a year. We've been keeping ahead of that figure."

Says Ralph McElvenny, president of Michigan Consolidated and of parent ANG: "Of course we're appealing the SEC ruling. We've got one housing project in the inner city of Detroit already built, another 80% finished, and two more ready to go. The SEC is saying now that there's no authority in the Act to permit us to go into housing. A year ago they ruled the opposite. There's a bill that has already passed the Senate that would amend the Act to permit holding companies to get into housing; and oddly enough, not only is the Department of Housing & Urban Development pushing for it, so is the SEC. All the SEC really wants is clear-cut language on this."

Other utilities duck the strictures of the law. Gas distributor Pacific Lighting is the parent of two gas companies, but not one itself: So PL paid

over \$20 million in stock last year to invest in real estate ventures in California and Hawaii (FORBES, Nov. 1). Eastern Gas & Fuel was a pioneer three years ago; its Boston Gas subsidiary renovated, and EC&F took equity in, 3,000 homes in South Boston.

Seed Money

The beauty of urban renewal projects for the utilities is that they get into it almost purely on borrowing power. McElvenny, for instance, says, "We put up \$150,000 to build a \$2.3-million development." Adds AEP's Cook, "If we raise \$5 million in equity, that generates \$50 million in financing. We're 4% of the industry, so multiply that by 25, then project it over a ten-year period, and you've got a potential of over \$12 billion this industry could put into housing."

This leverage is possible because Federal housing laws permit 90% borrowing on federally insured mortgages. Leverage is really greater, adds Cook: "\$5 million generates \$100 million in financing, if you count builders' risk allowances." And it's profitable, says Harry Slater, senior vice president of Niagara Mohawk: "You can produce a return on equity of over 20%." He explains that NMP sets up subsidiaries that take accelerated depreciation of the property, thereby producing a tax loss for consolidation with the parent company's return. The tax offset boosts the return.

Besides diversification, real estate also offers a special plus for the utilities. Developing a service area creates a good deal of sales potential from appliances. Guess who will supply the fuel or power to run them? ■

Home \$weet Home

From prehistoric cave to modern box, furnishing the home has been one of the biggest of businesses. It may well be the growth industry of the Seventies.

ABOUT the first thing mankind did after learning to live in caves and keep a fire was to start decorating and furnishing his new home. Once established in his nest, he proceeded to feather it. Thus was born the home furnishings industry. According to some very astute businessmen, this ancient industry may well be the hottest growth opportunity of the current decade. Some of the biggest and smartest companies in the U.S. are betting hundreds of millions of dollars that this will be so.

There is really no reason to be surprised. Crowded, jostled, pressed upon by the population explosion, the average American will retreat increasingly into his own private space. As it becomes smaller and smaller, he will concentrate on making that space more attractive. As Desmond Morris, zoologist and best-selling author (*The Naked Ape*) says in his latest book, *The Human Zoo*: "The human animal requires a spatial territory in which to live that possesses unique features, surprises, visual oddities, landmarks and architectural idiosyncrasies. Without them it can have little meaning."

Shrewdly summing up the reasons why his company is making a major commitment to home furnishings, a top merchant says: "As a student, the average affluent guy is lost in a vast university, then he goes to work for a huge corporation, shops in a chain store indistinguishable from thousands of other chain stores, eats in restau-

rants that are deliberately alike from Maine to California. He even vacations in prepackaged group tours. Only in his own home has he any chance of feeling like an individual."

Not counting TV sets and other home electronics—and notwithstanding the recession—Americans will spend \$45 billion this year in sprucing up their homes, up from \$40 billion two years ago. Add in home electronics, and the total comes to \$50 billion. That makes home furnishing a bigger industry than home building (\$30 billion this year) and probably second only to the sale and repair of new and used autos (\$59 billion) as the major U.S. consumer goods industry.

Overtaking the Auto

Sears, Roebuck, the old master at guessing consumer trends, expects that home furnishings will surpass the automotive industry by the end of the decade. Says Joseph Moran, Sears' top home-furnishings man: "If housing starts should pick up at all, the cross-over could take place sooner, by 1973." Others expect home furnishings could even double (to \$100 billion) by 1980. Some think it may go as high as that before then. This is all the more startling when you consider, despite its fast growth over the past decade, that the whole \$25-billion to \$26-billion electronics industry shows signs of slowing down unless some major breakthroughs occur.

This is a segmented business, to be sure, but the segments are each huge.

Furniture, a \$5.5-billion business at retail and 30% larger than it was five years ago, is expected to be a \$10-billion business by 1975.

Running neck and neck with furniture are household appliances. Despite heavy saturation in big-volume, big-ticket lines, such as refrigerators and clothes washers, major appliances are now a \$5 billion-to-\$6-billion-a-year business, and may hit \$10 billion in the next five to ten years. Aside from replacement sales, there is the potential for such big-ticket goods as dishwashers (now in only 20% of all existing wired homes) and clothes dryers (in less than a third of all existing wired homes). Already a \$2.5-billion business in their own right, small appliances should double in volume within the decade.

Then there is floor coverings, a \$2-billion business today, prospectively a \$5-billion business by 1975. The \$800-million bedding business, a star performer in the late Sixties with the rise of the convertible sofa, should almost double in sales in the next five or six years. Curtains, draperies and slipcovers, now \$1 billion in retail sales, have doubled since 1965 and should do even better by 1975.

While Wall Street has seen glamour elsewhere—in computers, in electronics, in service industries—a growing number of big companies have seen what Wall Street hasn't: that the home is a most attractive target.

Armstrong Cork, whose \$500-million annual sales already make it the



biggest producer of smooth-surface resilient flooring, has moved into carpets and furniture. Burlington Industries, at a \$1.8-billion-a-year volume, the country's biggest textile maker, has moved into carpets (Lees Carpets) and furniture (Globe, Stendig and United Furniture). Others with a growing stake inside the house are U.S. Plywood and Georgia-Pacific.

Only six months ago, Westinghouse went all out and set up a company-wide Consumer Products Research Center. Its sole job is to study *all* possibilities in every room of every kind of dwelling and see if there is room for Westinghouse. The Tappan Co., a leading range maker with \$135 million in sales, has branched out into a full line of home furnishings and into kitchen and bathroom remodeling services. Beatrice Foods has gone into home lighting fixtures. Sperry & Hutchinson into carpeting and furniture; and RCA has just made a bid to acquire Coronet Industries of Dalton, Ga., which is in carpeting, wall coverings and furniture.

The nation's biggest builders also are beginning to move in a big way into furnishing homes as well as constructing them. Only four years ago, ITT's Long Island-based Levitt & Sons, the nation's biggest residential builder (1969 total sales: \$225 million), set up a separate subsidiary, Levittmark, Inc., to sell home furnishings to the buyers of Levitt homes. CNA Financial's California-based Larwin Group, a builder specializing in townhouses, has followed Levitt's lead. Boise Cascade Corp., whose Boise Cascade Residential Communities Group in Los Angeles runs neck and neck with Levitt, has been dickering to buy the furniture and carpet-making facilities from bankrupt Dolly Madison Indus-



Furniture That Talks. This custom-made, ceiling-suspended TV set shows how mundane objects can be turned into something decorative as well.

tries, Inc.

Not only is the American consumer prepared psychologically to spend more on his home, he is more able financially to do so. Sears' Joe Moran points out: "The family with an average disposable income of \$7,000 to \$10,000 spends up to 12% on home furnishings. But when the income gets over \$10,000, the percentage goes up to 15% or 16%. It goes up to 17% or so at the \$24,000 level."

Thus a \$7,500 family spends maybe \$800 a year on its home, a \$10,000 family spends \$1,500, a \$25,000 family more than \$4,000. The leverage is tremendous; in effect, as disposable income rises past the \$10,000 mark, as much as 25% of the increment goes into home furnishings.

At the present rate, for example, by the mid-Seventies the average family income after taxes could be around \$10,000 *vs.* at least \$5,000 to \$7,500 today. Even now, more than a third of

the 50 million family units in the U.S. have such incomes over \$10,000, accounting for well over half of the total income in the country.

But what of life styles? What of the trend toward apartment living, toward smaller homes, smaller families? What of the hippies and Yuppies and long-hairs and the apparent downgrading of physical possessions? Interestingly enough, the generation coming into the market over the next decade is more, rather than less, likely to spend heavily on its nest. It is less likely than preceding generations to neglect the home in favor of other forms of consumption like automobiles. Burlington Industries Vice President Raymond E. Kassir, head of home furnishings, says: "Life styles and values are changing so fast that many people in the business do not understand what is happening." What is happening is good news for the home furnishings business, he says. "These young people of today are better educated. They travel more, and they are exposed to more influences.

"They are not hippies, most of them, but good, solid young adults with plenty of money to spend. They want individuality, not conformity, and they also are very interested in their homes. When there is so much strife and insecurity in the outside world today, there is a natural turning toward the home as a haven. It is becoming more and more the place where these young people reflect their own personalities, where they entertain their friends because service in restaurants is getting so lousy and expensive." Hence, of course, the great new fad for "gourmet" cooking (FORBES, Apr. 1, 1969).

Even so mundane and functional a product as the bedsheet shows what is going on. Until three or four years





Guess Who? Taste leader in the home-furnishing trade currently is New York City's Bloomingdale's department store. Its buyers travel the world to keep ahead of everyone else with new lines. It was one of the first stores in the country to emphasize total coordination of color and style in its model rooms. But the "total room" look and other advanced styles are no longer the exclusive preserve of a few stores. Mass merchandisers like J.C. Penney (below) today plan sophisticated home-furnishings "spectaculars" similar to the exotic seasonal shows featured on Bloomingdale's heavily trafficked fifth floor (above).



ago the sheet was usually white and only replaced when it wore out or the family bought another bed. Then "the fashion sheet," once strictly the province of specialized mills and retail outlets, hit the mass scene.

"From almost nothing in 1967, the fashion or printed sheet has grown to as much as 45% of the total bedsheet market," says Sears' Moran. In that period, total annual consumer bedsheet sales, moribund for years, have doubled and then tripled to about \$600 million a year. "New fashions in bedsheets," he adds, "triggered a similar change in the related bedspread market." This chain reaction, in turn, changed drapery designs. "Sharp color accents in pillows on the bed to contrast with the new prints, you know," says Moran.

And the bathroom, that great American institution? Textile producers like Virginia's Dan River Inc., talk about "color coordination" of all kinds between the towels, wash cloths and mats in the bathroom and the sheets, spreads, et al in the bedroom.

The very same influences are making themselves felt in furniture, the biggest ticket in the home-furnishings field. Things are changing so fast in the furniture business that even the experts have trouble knowing where the trends are going. It isn't any longer the Scandinavians with their sculptured wood who dominate the modern look in furniture. Since the late Sixties that play has been taken away from them, first by the Italians, coming on strong in new plastics forms, now joined by the Germans, the French and the Japanese, working in chrome, foam and steel.

Mix, Not Match

In furniture and other home furnishings, no single motif is "in" anymore. What is "in" is what *House Beautiful* calls "The Mix," whatever blend of furniture styles and periods, new and old, that you feel best expresses your personality. That could mean a living room with a Tiffany-type lamp shining down on a steel and glass table or an Eames-style chair alongside a Sheraton-type chest or a modern kitchen with antiques.

All this is not simply Park Avenue. If it were, Sears wouldn't be head over heels into it. What is true in furniture is also true in carpeting. Oriental rugs are booming again, but so is wall-to-wall carpeting and bright mosaic area rugs. New technology makes possible the creation of carpets of every kind in terms of durability, soil resistance, texture and dyeability. The fibers come today from practically every chemical company.

(Continued on page 31)



(Continued from page 26)

New manufacturing techniques as well as new fibers have enlarged the floor-covering market. So-called tufted carpet, which started after World War II in cheap cotton shag rugs and soon spread into more expensive fibers and patterns, has now largely replaced traditional woven carpet—but in much larger volume. Now history may be repeating in flat, nonpile indoor-outdoor carpet, currently 10% of industry output.

Similarly, there would not be so many furniture styles in so many mass price categories today but for the emergence of plastics as a major furniture material in the Sixties. Recently introduced plastic substitutes in carvings and moldings—almost unrecognizable by the buyer—have virtually taken over from wood filigree. These, in turn, have encouraged the recent popularity of Mediterranean and Spanish styles. And, with the Italians already leading the way with sensuous foam forms and molded modules, plastics now are used for their own sake in and as furniture.

According to analysts of the home furnishings industry at the research firm of Arthur D. Little, the use of plastics will help automate American furniture manufacturing. What new plastic technologies are doing for furniture, they already have done for bedding. For example, urethane foam, 2% of all mattress shipments in 1960, is now 10% of the growing total. Moving in on the inner-spring, urethane has broadened the number of mattress sizes and styles and sent mattress sales soaring in the past five years.

Nowhere are the new trends more evident than in the kitchen. "More than 2.5 million American families will remodel their kitchens this year," says Klaus Paradies, executive vice president of the American Institute of Kitchen Dealers. "Each new kitchen will represent an average expenditure of something like \$2,000, with many going up into the \$20,000 to \$35,000

Requiem For Ye Olde? What passes for "early American" still accounts for a full third of furniture sold in the U.S., but two things may be changing this: 1) the growing use of plastics in new forms; and 2) more sophisticated tastes, encouraged by merchants and the media. Many people may not want this bathroom by American Standard, but the trend toward luxury is obvious.

range. That makes the annual kitchen remodeling market something like a \$6-billion-a-year business. Then there is the "nonkitchen," where self-contained appliances are located at the point of end use. This means a blender in the den or family room or even on the living room bar for mixing drinks, and a coffeemaker, not to mention a small (three to five cubic feet) refrigerator unit in the bedroom (for late night snacks). The Italians



are already making and shipping them here by the carload.

Ultimately, says Rye Amthor, head of Westinghouse's Consumer Products Development Center, "Why not break up the refrigerator function into pieces, redistributing it in smaller, separate boxes according to the needs of food preparation? This would also eliminate the last bottleneck in the planning of modular prefabricated food preparation areas. These could be packaged in a variety of standard sizes and shipped directly to a building site or housing factory."

Whirlpool already has such a modular design idea in the works in its "Tic-Tac-Toe" kitchen. Whirlpool's idea is to house each appliance in several standard-sized cubical units. With plumbing and wiring strategically located around the floor and walls, each pedestal-mounted unit can be shifted about to suit a woman's fancy, depending on her family demands.

Westinghouse's Amthor also sees a new mass market within the next five years created by the need for new appliance technologies to fight and contain air, water and noise pollution in the home. "I don't mean just air conditioning and water softeners the way we know them," he says. "There is a whole new field of home ecology opening up. For example, we'll have to have home water purification systems because the drinking and cooking water coming in from the outside is getting so bad. I think that the recent success of Whirlpool's Trash-Masher [which compacts garbage for once-a-week disposal] shows the direction we're all going to go in the major appliance field."

Cubicles

As FORBES pointed out seven months ago ("Revolution in Suburbia," Apr. 1), "By 1971—or 1972 at the latest—the U.S. will for the first time in its history be building more multi-unit housing than single-family homes." Not even counted, but fragmenting the housing market even more, is the increase in mobile homes.

At first glance, it might appear that the trend to multi-unit and mobile homes will downgrade the home-furnishings market. After all, how much can you do with a cubicle? The answer is, a great deal. In fact, the trend toward compact dwelling units may well increase the demand for luxury and individuality inside the home. People will seek to make up in style and flair what they lose in elbow room.

American Standard, long a maker of more or less unimaginative bathroom fixtures, is so gung-ho about all this that it has brought in Bryce S. Durant, former head of consumer



In A Cage? As the U.S. becomes more congested, as housing becomes more box-like, how will Americans avoid feeling like caged monkeys? By expressing their individuality inside their dwellings.



product sales at RCA, to market its plumbing and heating products. Today, American Standard makes a wide variety of lines and is paying increasing attention to the luxury end. It markets showers with two-level sprays, bidets, ladies' vanities with three-way mirrors and a whole line of items that were once available only to the very rich or very extravagant.

William Lyon heads William Lyon Development Co., now a subsidiary of American Standard. Lyon is one of the biggest and most promotion-minded builders in the country. It constructs everything from single-family houses to townhouse communities throughout California and across the U.S.

One of Lyon's hottest ideas, worked up in cooperation with GE, is a special gourmet kitchen (see cover photograph), featured in one plan of its new 474 single-family home community, The Colony, on Southern California's Irvine Ranch. The kitchen is the most luxurious room in the house. There's a gourmet island in the middle, comprising a work area with a heavy chopping block top which doubles as a dining bar—plus storage underneath. Overhead is a pot rack, a concealed light fixture. Space also is provided for a wine "cellar" or combination wine rack and pantry.

The buyer gets this gourmet kitchen at anywhere from \$800 to \$5,700 as part of the total housing package. The whole four-bedroom, three-bath home with the complete gourmet kitchen sells for \$43,195.

So successful has the gourmet kitchen been in selling single-family homes in The Colony, that Lyon now has TV chef Mike Roy and GE working on ways to scale it down for every price range in all the apartments and townhouses Lyon builds.

Luxury at a Price

Los Angeles planner-designer-architect Barry A. Berkus heads Environmental Systems International, the top consultant and planner for the biggest builders in the country, from Levitt to Boise Cascade, Kaufmann & Broad and Lyon Homes, to name a few. Says Berkus, "We have to think about people the way these people like Morris think about all of us animals."

"When these guys talk about animals, they are talking about us," he goes on. "We encroached on the animals and put them into zoos and parks, where elephants have heart disease just like men do. Now we are encroaching on ourselves. And though we are outwardly civilized, biologically we're just another tribal animal living in our own supertribes."

"Now, what the hell has this all got to do with interior design and home



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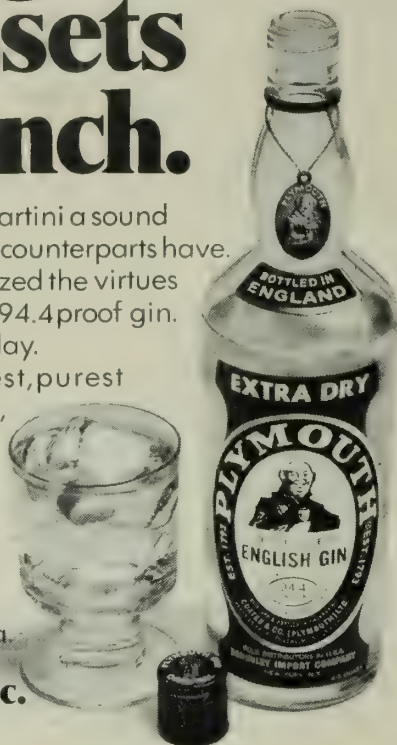
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furnishings? Plenty. To quote Morris and the others, for instance, the human animal needs a great deal of variety right within his living quarters—like space for big blasts and space to be alone. Just a neatly symmetrical or geometric pattern inside a dwelling can become boring.”

In Berkus' terms of interior design and home furnishings, this means providing luxury features, but at a price: cathedral ceilings and step-down living areas and unique openness in space with something like the kitchen “flowing” through glass sliders into enclosed, eye-catching patios. Bookcases replace walls. For intimacy without losing actual space, there are sunken conversation pits in front of fireplaces.

In California, such interior design and use of home furnishings already is a way of life. “We now are using these ideas inside several of the mass-priced housing we build—East, North, South and West—single or multi-unit,” says one of Berkus' best clients, Charles L. Biederman, president of Levitt Building Systems, Inc., another subsidiary of Levitt & Sons. “The exteriors may look traditional, depending on the part of the country you're in. But the open interiors may or may not match the traditional exteriors.”

The Need for Assurance

The opportunities in all of this for manufacturers, clearly, is tremendous. For retailers it is potentially even greater. For one thing, whole new methods of distribution are called for.

Consider this: The new life styles we are talking about will be a monument not only to the consumer's affluence—as cars long have been—but to his taste as well. And this creates problems for the consumer as well as for the businessman.

“Even with all the growing sophistication of the new buyers, all our research shows that putting the right combinations of home furnishings together can be a traumatic experience for the consumer,” says Burlington Industries' Kassar. “If her husband doesn't like what she buys, she can't just slip it into a closet like a dress he doesn't like. Decorating a home has given women nervous breakdowns.”

In recognition of this, retailers are developing new methods. Until recently, home furnishings have been marketed on a highly fragmented basis: carpet stores, furniture stores, appliance stores, kitchen cabinet stores; even within big department stores the items were marketed separately. As for coordination, the well-to-do used decorators, the self-confident minority did their own decorating. As for the vast majority of consumers, they often were inhibited in their home furnishing-

ing because they were afraid of a breach of taste.

Today the whole rickety distribution process is being changed drastically. New home-furnishings centers have been springing up along the nation's highways and in the newer shopping centers. But that is only the beginning.

Now big-name manufacturers are moving directly into retailing via the franchise route. A prime example is Armstrong Cork. Concurrent with its diversification into furniture and carpeting, "Armstrong, Creators of the Indoor World" busily but quietly has been setting up what will soon be a national network of Armstrong Floor Fashion Centers in every major city.

"Each independently owned Armstrong retail center," says Executive Vice President Harry A. Jensen, "will specialize in custom-installed residential flooring work and will offer a broad range of merchandising services, including color-coordination assistance, interior-design counseling, convenient budget terms and written product workmanship guarantees." Already operating in 12 cities at the beginning of 1970, Armstrong expects to have such centers in 40 more new markets by the end of this year and be completely national by 1973.

Burlington Breaks In

Only this year, Burlington Industries, making its first move into the retail end, formed a new company to operate showcase retail drapery shops across the country. Burlington also is working on an intriguing way to tie its retailing customers even closer to its own operations. "With about eight leading department stores, we are test-marketing a computerized decorating service," says Burlington Industries' Kassar. "A potential customer who comes into the store gets a simple, four-page questionnaire to fill out." Its 26 questions probe her preferences. The answers are fed into a computer that shoots back, in seconds, what you might call her home-furnishings profile—that is, a working hypothesis of what will represent her and her family's personality in their home.

In a few years, the old-fashioned appliance dealer or appliance department with its cluttered floors may be a thing of the past. For one thing, increasing numbers of new homes come already equipped with their appliances. Both builders and buyers like this: The lack of middlemen makes for a better price and the buyer can include appliances under his mortgage instead of buying them separately. General Electric and Westinghouse do not like to talk about it—the dealers still have political clout—but it is well known within the trade that

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they have almost turned themselves inside out to woo the big builders.

The makers of plumbing fixtures smell a giant new market if they can help builders and consumers beat the extortionate plumbing unions. (In some states, plumbers already can make as much as \$23,000 a year for working a straight 42-hour week with a month's vacation.)

In this regard, American Standard's new mechanical systems department already is turning out several varia-

ings in the country. An estimated one-fourth of Sears' \$9-billion annual volume already comes from home furnishings, but Sears is out to get more.

With an ever-massive advertising budget of over \$100 million, Sears literally is pounding the consumer every day with its current slogan, "You've changed a lot lately and so has Sears." According to its own suppliers, Sears' objective is not simply to grow arithmetically in home furnishings, but geometrically.



"Let's Try It." The increasing number of vacation homes encourages Americans to be more daring in home furnishings. "People will put more exotic and exciting things in these houses than they do in first homes," says architect Robert M. Engelbrecht. His firm in Princeton, N.J. designed this modular Engelframe vacation house, popular with skiers and which can be transported by truck or helicopter to the site.

tions of what it calls a component plumbing system, consisting of a full line of economy and luxury fixtures, fittings and a pre-assembled "wet wall" which make up the bathrooms and kitchens for most types of housing. These pre-assembled packages, which cut on-site installation time by 60% to 85%, already are being shipped to builders of apartment-house and vacation communities in the South. Adapting such pre-assembled packages for factory-produced housing is a natural, and American Standard now is working on it with builders.

Sears, Roebuck is already the single biggest marketer of home furnish-

"My God, those guys in Chicago are talking about getting something like 20% of the total market for themselves by the end of the decade," says one competitor. "If the market doubles in the next ten years, that could mean \$20 billion to Sears alone."

What Sears wants, its closest competitors want, too. Take Marcor's expanding Montgomery Ward chain.

"You think we still sell tires and batteries, don't you?" says Dave Farrar, a Sears-trained swinger who is now Ward's resident home-furnishings genius. "Crazy, baby. We've changed our emphasis all the way in the last three years. You know what Ward's

biggest volume is in now? Furniture. And we're putting in home furnishings boutiques everywhere." In the last two years Montgomery Ward has been pouring out a series of special, jazzy, four-color total merchandising catalogs aimed right at the under-35 market. In fact, the catalogs are titled "The Unexpected Generation."

Beyond that, Farrar has set up home-decorating courses potential customers can take day or night in Ward's stores. "We're in 24 major markets with the program now," says Farrar. "It is so successful, we are going into more every week and will be nearly everywhere with these courses in two or three years." In effect, the customer pays to teach herself what Ward's goods to buy.

Even more ambitious is J.C. Penney with its new in-home selling program. Even Sears has nothing quite like it. Right now the program involves 160 Penney markets and more than 500 Penney-trained decorators. But Penney's Vice President and General Merchandise Manager, Walter J. Neppi, sees that as only the beginning. "Within a few years we'll have this in-home service everywhere in the country."

Penney's new crew of decorators goes right into a home with a series of new sales books featuring 116 different room settings, replete with swatches of fabric, carpet and finish colors. "The customer doesn't have to buy everything at once, either," says Neppi. "Just a piece at a time on her Penney's credit card. But she'll have a plan into which she can fit things as she buys them." Obviously, the plan is also calculated to keep her coming back to Penney.

Retailers like Sears and Ward and Penney already are giving some very tough competition to the big builders who have gone into home furnishings. Take the Levittmark subsidiary of ITT's Levitt. Levittmark started out selling things like shades, storm windows and screens to buyers of its houses, branched out into deluxe appliances and now offers carpeting, bedspreads, some furniture items, stereo music systems and electronic garage door openers. Levitt claims that Levittmark sales are adding \$2,000 to its average new-home sale. But whether or not Levittmark can keep up with the growing competition of Sears and Penney is a good question.

To Burlington, Sears and Penney and to all the other giant companies that are pushing deeper into the new home-furnishings field, it is beyond doubt that there are literally tens of billions of dollars in new business to be gotten here. For business and industry, the 1970s may well turn out to be the era of Home, Sweet Home. ■

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ILS

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Over the years he had spoken to us many times about this wish. He had also written a memo about it.

So we wanted to follow the spirit as well as the letter of Mr. B's will. We wanted to maximize the return from the estate to his heirs, but at the same time fulfill a dream that we were not legally bound to do. We were able to do both because we had the complete cooperation of his heirs and the attorneys for the estate.

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Dow Down

Unlike most of its competitors, Dow Chemical had managed to show good earnings increases every year for nearly a decade. But as the profit squeeze worsens, even Dow seems to have reached the end of its long string of gains.

THE OLD HEROES are falling like ten pins these days. Now it's Dow Chemical, for 25 years the very epitome of a growth company. For the first time in nearly ten years, Dow will show an earnings decline this year. If the decline is not a serious one it will be only because Dow has been using a good many bookkeeping options to maximize reported earnings.

The most dramatic symptom of Dow's problem is Chairman Carl A. Gerstacker's recent announcement that the company could "make no accurate determination of loss" in Dow's 50%-owned textile fiber affiliate in Germany, Phrix-Werke, A.G. That sounds bad and it is; outside reports have put the probable loss at somewhat more than \$27 million.

In late April the prospectus on a \$150-million bond offering gave analysts a good look at the figures behind the figures in Dow's annual report. Many of the analysts didn't like what they read. "When we saw those figures," says one large institutional money manager, "we kicked Dow completely out of our portfolio for the first time in many years."

Dow's debt load has been rising rapidly in recent years, from \$450 million in 1965 to \$950 million currently. Adding an additional \$330 million in short-term debt, Dow's total obligation now amounts to just under 50% of its total capitalization, much higher than the 33% average for the basic chemical producers. At today's interest rates, this means that Dow is probably paying as much as \$75 million in annual interest charges.

How Conservative?

What has particularly concerned some Dow-watchers is the way Dow handles its accounting. Chairman Gerstacker has always gone out of his way to project a conservative accounting image for Dow. Dow's domestic depreciation is very conservatively calculated according to the double declining balance method, an option that trimmed 1969 earnings by nearly 35 cents a share.

In other respects, however, Dow is becoming increasingly less conservative. In its foreign operations—some of over 40% of its earnings—Dow uses straight-line depreciation. Even in the U.S. Dow is anything but conservative in its handling of the investment credit: It applies the entire amount to earnings in the year incurred—an op-



tion that added 48 cents a share to earnings last year.

With the investment credit at an end and its expansion program and consequent start-up costs continuing unabated, Dow obviously is going to have to run harder just to stay in place. Last year, for example, the company did manage to show a nice gain in earnings, from \$4.51 a share to \$4.91, up about 9%. But Dow's operating net *before* taxes increased hardly at all; the fact is that most of the gain came from a decrease in income taxes.

Actually, were it not for some capital gains and other extraordinary items, Dow's pretax profit probably would have declined last year. The company reported \$50 million in "other income" (out of a total net of \$149 million). That includes such items as a \$11-

million "profit on investment turnover"—for which read capital gains on stock trading. It also includes \$18 million in "sundry income-net," of which \$6.3 million is a profit on the discontinuance of several unprofitable product lines. A profit from unprofit? Explains Gerstacker: "We were so conservative in our accounting in the early years that when we sold the operations their salvage value was considerably greater than their net book value." Even so, reporting such gains as a part of normal profit, rather than crediting them to earned surplus, is not conservative accounting.

As for including the stock market gains in net income, Gerstacker says: "If we are going to be penalized for all the interest expense we incur on our borrowings, I don't see why it's not natural to accept all the returns we

get on that as normal income. When we borrowed funds for expansion in Europe at attractive rates, we didn't need the money immediately. We could have put it into bonds for a year or two. Instead, we invested well over \$100 million in bank stocks in Europe. As a result we realized very substantial capital gains because we bought those bank stocks when they were near the bottom."

Lagging Growth

Yet behind all these figures stands an unpleasant fact: The chemical industry's only real growth these days is in volume. Prices have declined almost 3% every year for the last six years. Gerstacker takes comfort from the fact that in 1970, for the first time in many years, prices have stabilized. But costs, unfortunately, continue to mount, and most chemical companies are operating well under capacity. With stable prices and a booming economy, Dow might be able to improve its earnings next year. "But if inflation continues and money remains tight," Gerstacker concedes, "we are going to need between 1.5% and 2% price increases to get significantly ahead of rising costs." The chances of such increases materializing, however, are not very good.

Dow's reported earnings are in further question because its reported figures do not consolidate a number of joint ventures. The German Phrix venture is only one of such. In the U.S. both Dow Badische (synthetic fibers) and Ethyl-Dow (gasoline additives) are known to have lost a potful of money in recent years, and another was doing so badly Dow sold it out. Overall, in fact, Dow's 50%-owned domestic companies lost \$8 million last year vs. a \$20-million combined profit as recently as 1966. Yet, in spite of this overall loss, Dow's figures last year—and this—reflect dividends received from several other joint ventures.

"Dow Corning and another venture have been making good money all along," Gerstacker explains, "and they have been paying the dividends. The money losers never paid dividends." Thus, with the aid of generally accepted accounting principles, Dow has had it both ways—profiting when its affiliates profit, but not reflecting the losses in earnings when they lose. It would be awkward for Dow, and others using the cost basis, to say the least, if the accountants should decide to require equity accounting for joint ventures, as they are now considering; for this would force Dow to consolidate its losses. Fortunately Gerstacker claims that most of the losses have been stopped in these affiliates, for the time being at least.



Today, 'mug,' meaning cup, is rapidly being overshadowed by 'mug' meaning assault and strong-arm robbery.

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In 1931, we figured that between the winds, the floods, the droughts, and the Crash, farmers had enough problems

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We showed them how to build up their worn-out soil. We finished repairs they never had the cash to start. And, in the process, we helped them make enough money to buy the land back outright.

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None of this is to suggest that Dow is not a well-run company—only that it is far from a miracle worker, able to produce growth in bad times. Even the company's detractors have nothing but admiration for the way Dow runs its chemical and other operations. Dow has two pluses working for it at present. Its plastics and packaging business has grown from \$522 million at the end of 1968 to about \$660 million currently, and operating income rose even faster, from \$57 million to just under \$100 million.

Also on the credit side, this year some 38% of Dow's \$1.8-billion revenues and 44% of its earnings are coming from Europe, Canada, Asia and Latin America vs. less than 25% five years ago. This is a tribute to the company's skill at challenging the long-established European chemical companies on their home ground. It also reflects to some extent acquisitions Dow has made abroad in recent years in the drug field, including the big Italian pharmaceutical maker, Gruppo Lepetit, S.p.A.

Slowdown

But there may be a slackening off, either late in 1970 or early 1971, in Europe, particularly in Germany where the Big Three German chemical combines have all reported slowdowns in sales growth and declines in profits. Dow will probably begin showing the same pattern.

On top of this, Dow is in the midst of a huge expansion (\$250 million) of a chemical complex in Stade, Germany, the first phase of which will be completed late next year. The fact is that, in the face of all these problems, Dow is going on with its long-range policy of continuing to expand in spite of temporary setbacks. Capital spending last year was a record \$371 million—more than \$12 a share—and this year it will be \$350 million. An inevitable consequence of this expansionism is that depreciation and interest charges continue to mount, and so will start-up costs.

With all this, and with so many of its bookkeeping options already taken, Dow will almost certainly report lower earnings this year and part of next year. How much lower? Nine-month earnings were \$3.46 a share, down 11% on a 7% increase in sales to roughly \$1.4 billion.

Over the long term, Dow's vaunted skills may yet reassert themselves. But the more immediate prospects are clearly reflected in Dow's recent market price. It recently sold at 14 times earnings, about in line with the price of the Dow Jones industrials; in the mid-Sixties Dow sold as high as 25 times earnings. ■

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The Money Men

The Generation Gap

WE'LL BEGIN by recognizing that older people tend to be pessimistic when faced with change; it's only natural, because they feel comfortable with the old ways. But this hardly means that the elders shouldn't be listened to; after all, with their long view of things, they are less likely to be carried away by short-term hopes and fears.

With this disclaimer, we'll report that two of the U.S.' senior money managers have recently delivered themselves of extremely pessimistic opinions on the prospects for investors and businessmen.

"Uncontrolled inflation seems unavoidable—a serious business depression will create social revolution and confiscation of property of the 'haves' by the 'have-nots.'" This is T. Rowe Price speaking in a recent pamphlet, the 72-year-old Baltimore investment manager whose no-load mutual funds and investment counseling business manage some \$2.7 billion.

"We're in a new environment now, and the average stock of the Seventies may turn out to be a poor investment." These words were recently written by David Babson, the 69-year-old shrewd Bostonian whose investment counseling firm manages over \$1.5 billion.

Shaken by so much pessimism from two such wise men, we sent Researcher Suzanne Fogelson to interview the two. We wanted to ask each of them a very simple question: Given your view of the future, what are you advising your clients?

First she talked with Price, a gentle man, soft-spoken and neatly dressed and wearing a habitual rose in his lapel. He was much less pessimistic in person than he was on paper. He explained, "I believe in preparing for the worst, and hoping to heaven the worst never occurs." However, he isn't at all sure the worst won't happen. Price feels if the Government doesn't correct the causes of inflation dramatically—rather than pursuing what he calls its "feeble effort"—then the nation will undergo two or three different periods of mounting inflation. The majority of Americans will then get so frightened because the American dollar isn't buying what they thought it would, that they'll lose confidence in it. "That's when the

masses take over," says Price, "and I think we'll have chaos. I'm hoping it won't happen."

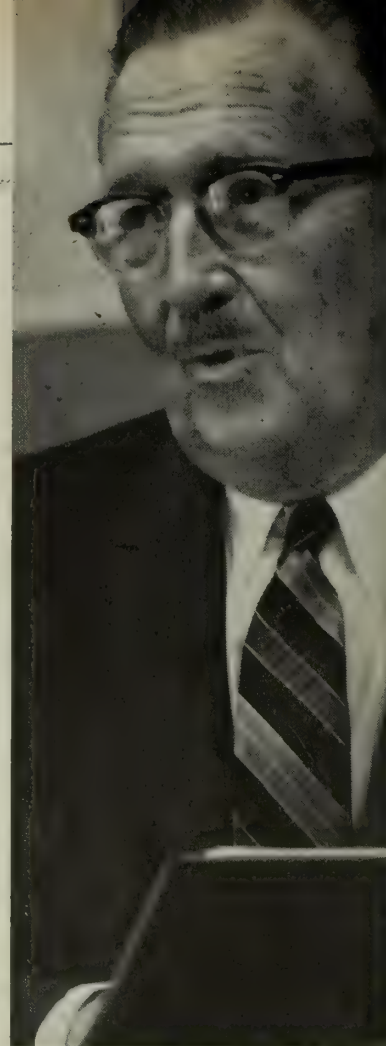
So, what does he suggest for investors? First of all, that the investor will have to use far greater discretion in choosing his stocks. For the "new era," Price has a number of suggestions. First, there are the consumer and service stocks, stable growth stocks that fluctuate little with the business cycle. These may be blue chips, or they may be small companies with high rates of earnings growth. Then there are the science and technology stocks, either stable or cyclical, in areas like data processing, office equipment and electronic labor-saving devices. Then, most important of all, there are the natural resource stocks. "All of these industries," he says, "are good investments where the supply is limited and where the demand is increasing."

He went on: "When there is a flight from the dollar, people will be paying more attention to assets. I believe in owning real estate, the type that is not subject to high taxes and operating expenses, valuable land for producing crops and cattle, which is strategically located near population centers. That is one of the reasons I like Newhall Land & Farming."

Price also likes those companies with holdings of metals—silver, copper and molybdenum. He especially likes gold, because "with an inflationary spiral you have to go back to something tangible, and gold is the thing."

This may surprise you, but Price feels that *cash* is an important, very important, thing to have in an inflationary period. By cash, he means money in the bank or securities you can turn into cash in an emergency, such as short-term Treasury bills or notes. Why cash? So that the investor can buy the right investments when the prices have gone way down during the "panic" periods that characterize runaway inflation. "In such a period you're going to need these liquid sources to buy the things the other fellow *has* to sell."

Miss Fogelson thanked Mr. Price and caught a plane for Boston. What did the tweedy, pipesmoking sportsman Babson have to say about all this? He is angry and frustrated, he says, because he sees no workable solution to the infla-



Price of T. Rowe Price

tion problem. "We've gone beyond the point of no return in this country. I don't believe there's any stopping these trends. Inflation is caused by just two things: excessive government spending and taxation and the union-labor monopoly. But how politically can you prevent either one of them?"

"Every nation that has long spent more than it took in through its taxes has destroyed its currency, and every nation that has destroyed its currency has had a revolution. I don't understand why this nation thinks it can do something that no other nation in history has ever been able to do."

As a professional money manager, however, Babson can't just throw up his hands and head for the hills. What does he recommend people do to protect themselves? Like Price, he warns them to be fanatically careful about picking investments. "We're in a new environment now, and the penalties of being wrong in stock selection will be more costly. You've got to

(Continued on page 51)

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The Money Men

(Continued from page 46)

be in the really unique, well-run and well-managed company with the right characteristics, and there aren't very many.

"IBM, Merck, 3M. These select companies sell at high price/earnings ratios because of their popularity, but be careful. If you're wrong in the selection of these, you're going to get murdered."

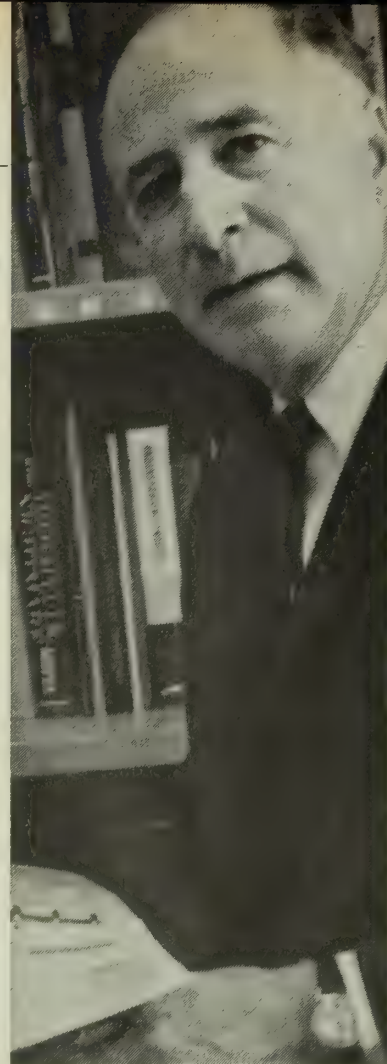
Babson judges stock groups by their inflation-resistant characteristics. They must have five qualifications: 1) strong demand growth; 2) low labor costs; 3) high profit margins; 4) small capital requirements; and 5) the ability to raise prices as their costs go up. This last—pricing flexibility—he regards as all-important, and it rules out such industries as steel, the railroads and the airlines.

The industries Babson regards as having these precious qualifications he divides into three groups: 1) the research-oriented companies that bring out new products, *i.e.*, ethical drugs, electronic instruments; 2) firms that offer goods or services where performance is more important than price, such as computers, office copiers, medical equipment; and 3) manufacturers of noncritical items whose prices can be increased without attracting the attention of Ralph Nader, *i.e.*, soft drinks, cosmetics.

As for all the rest, the bulk of the old-line companies, says Babson: "Those blue chips lacking the five qualifications won't be very attractive. It would be wiser to invest in bonds with at least an 8% to 9% yield, without the risk of equity investment."

All of this left our reporter so depressed about investment prospects that she decided to seek out a younger money man and ask what he thought. The trail led to Orville Weiszhaar, 33, who runs First Sierra Fund and is primarily responsible for the investment of Jeno Paulucci's \$100-million fortune. He left our reporter feeling considerably better.

"Oh yes, I agree we are in a social revolution," he said, "but I don't believe it means the end of the world for investors. Sure, we are in the midst of changing priorities in the U.S. and this, naturally, worries older people. But I don't think private property will be abolished. Nor do I think the old-line



Babson of David L. Babson

companies are automatically dead-end investments." Weiszhaar feels that the social change will create as many opportunities as it destroys.

"Look," he says, "at the Black Revolution. They no longer want to be maids or janitors. Okay, so that creates big opportunities for companies that can develop house-cleaning services, for example, or baby-care stuff.

"And pollution? Migawd, somebody's got to create the products to solve it. Or housing. Boeing knows how to make containers. All they have to do is take off the wings and wheels. The same kind of switch could benefit hundreds of companies.

"Why panic because people want to change things? If people weren't trying to change things, then I'd be pessimistic."

So there you have the view from two sides of the generation gap. We don't know which side is right; maybe, in their own way, both are. All we know is that the wise man listens to both sides and then makes up his own mind. ■

The Richest Graveyard

Pro basketball seems on the threshold of a golden era, but many a pro team may not survive to enjoy it.

AS PROFESSIONAL BASKETBALL enters its Silver Anniversary year, it would appear to have everything going for it. Drawing on the millions of spectators preconditioned by attendance at tens of thousands of high school and college games, the pro version is suddenly the nation's fastest-growing sport. With new television contracts worth an estimated \$7 million a year and the champion New York Knickerbockers generating intense nationwide publicity, you might think the pro teams could hardly lose.

But the fact is that most teams are in the red, and some will not survive to take their cut when the really big money starts rolling in three years from now on the next round of com-

mercial and cable-TV contracts. Commissioner Jack Dolph of the four-year-old American Basketball Association says that five of his 11 teams could fold by next season; and he adds, "A few in the other league [the older and better-established National Basketball Association] could go, too."

Lest this be dismissed as a competitor's snide comment, let it be noted that only four NBA teams made a profit last season—the Milwaukee Bucks with Lew Alcindor, the Los Angeles Lakers with Wilt Chamberlain, the Seattle SuperSonics and the New York Knicks. Indeed, the Knicks posted pretax earnings estimated at \$3.5 million on \$6 million in revenues. Perhaps two other NBA clubs with paper losses had positive cash flows. However, all other NBA teams, and all 11 ABA teams, lost from \$100,000 to \$1 million each. And the ABA was forced to take over two failing franchises when, in one case, players' paychecks bounced higher than a basketball. In this perilous setting, both leagues continue to add new owners—the NBA has just added three—and the players continue to demand raises ranging from \$50,000 to \$300,000, which are sending operating costs through the roof.

What's wrong? "The basic greed and avarice of certain owners and players is behind most of pro basketball's problems," says a former NBA owner who is understandably reluctant to be quoted by name.

The pattern was set in the early 1960s when the weaker NBA teams requested that ticket proceeds (some 65% of total revenues) be shared between home and visiting teams. The rich teams pushed instead for expansion—the sport's version of fast-buck franchising. Each time a franchise was granted, the existing teams divided the proceeds—\$18.6 million over the past three years alone from seven new owners. It was the staff of life for the weaklings; for the rich, it was all gravy. When questioned about this pivotal decision, long-time NBA Commissioner Walter Kennedy said: "Gate sharing is a matter for the owners to decide. I don't get involved."

Despite the occasional cash transfusions from expansion, the weak clubs remained weak. And after the ABA was formed, the thinly capitalized sportsmen-owners were replaced by hard-eyed operators whose most notable talent lay in devising gimmicks to squeeze a buck out of a club,

often by selling it to a new owner. In effect, the transient owners treat their teams as if they were real estate, which is often depreciated and then sold. It's a neat trick—except that a ball team is not real estate.

Take the Boston Celtics (and one undoubtedly could, at a price). Since its original owner died in 1964, the team has had six changes of ownership, and current litigation could bring a seventh. "None of the new owners," says a players' attorney, "put up enough cash to keep the club viable." Now the team, once the perennial champion, is a loser both on the court and at the box office. As the team's fortunes have slipped, the sell-out deals have involved less and less cash. In last season's sale, \$4.5 million of the reported \$6-million price consisted of advertising services that buyer Trans National Communications promised to perform for the seller, the Ballantine beer subsidiary of



A \$500,000 Trio. That's the combined pay of the Lakers' Wilt Chamberlain and Elgin Baylor and the Knicks' shooter Willis Reed. Are they worth it? Stars draw fans. Both teams make a profit; 24 others lose money.



A Ticket Scalper scores again outside Madison Square Garden. He (right) is one of 11 regulars who clear about \$300 a game by selling scarce Knick tickets at \$2 to \$6 above face value. The record: \$150 for two \$10 seats at last season's championship game. Most scalper tickets come from the Garden's own ticket agents, who hold back up to 1,000 good seats a game. The scalpers pay a \$1 premium per ticket, and sometimes also split a game's take with key ticket agents. Garden management dismisses scalping as a "police matter."

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Manhattan's Investors Funding Corp. Another way to profit from a losing club is to sell shares to the ultimate buyer—the sports fan. National General Corp.'s Eugene Klein, Sam Schulman and others did just that last year with their Seattle expansion team. The club lost \$577,000 between 1967 and 1969, but the owners raised virtually all the cash needed to sustain such losses by borrowing and by selling stock to friends like Burt Kleiner, Lionel Bell and Pierre Salinger at \$2.35 a share. Klein's and Schulman's own purchases were at 2 cents a share. Then last year the public was let in at \$7 a share; the insiders cleared \$343,000 while keeping 57% control.

Of course, increasing operating losses have made teams harder to sell these days. For example, Wall Street's Newburger Loeb & Co. bought the NBA's new Buffalo franchise for \$3.7 million early this year, planning to sell it to 12 investors. But after the market break, the prospective buyers stopped answering their phones. For months, Newburger seemed stuck with the team and its estimated operating losses of about \$600,000 a year. Last month, however, Newburger sold the club to a Buffalo businessman—for just over \$3.7 million.

Some of the reasons for pro basketball's operating losses are common to any business—sloppy cost control, etc. Others are special—for instance, the size and cost of a team's playing arena (over which an owner has relatively

little control), and particularly the need to build a winning team, which today involves a costly gamble on opportunistic athletes intent on getting theirs while the getting is good.

The NBA's Detroit Pistons is a case in point. After losing money in 24 of its 25 years, the club wanted 6-foot-11-inch BqB Lanier of St. Bonaventure so badly that it agreed to take him despite a severely injured knee. The rookie signed a \$1.5-million five-year contract sitting in a hospital wheelchair after knee surgery. Now several veterans around the league, underpaid by comparison, want salaries starting at \$200,000 a year. Already several NBA teams—including the Knicks, Lakers, Philadelphia 76ers and Atlanta Hawks (see box)—have payrolls (for a dozen players) that are approaching \$1 million.

Such salaries are draining away the pro teams' gains in TV revenues, and they could as easily siphon off any potential gains from pay TV, which some savvy observers see as pro basketball's last best hope. Indeed, the odds are that this will happen unless the NBA and ABA merge and stop bidding against one another for the same college stars or even occasional veterans already under contract.

The two leagues have gotten the message. They are now asking Congress for a special antitrust exemption to permit a merger. And what about the players? The majority are suing to block it. ■

The Homeless Hawks

TOM COUSINS, president of the \$19-million Cousins Properties Inc., wanted to develop 40 acres of air rights in the heart of Atlanta. So he paid \$3.2 million for a pro basketball team in 1968, hoping to coax his hometown politicians into financing a sports coliseum that in turn would trigger the development of his nearby property.

It has been downhill ever since. The city, which took a beating on its baseball stadium, backed away from the coliseum. And the Atlanta Hawks became a worrisome drain on Cousins' personal resources. All told, the team's player salaries and losses are among the highest in the sport—about \$1 million each.

When Cousins bought the then St. Louis-based team from its frugal sportsman-owner, salaries averaged \$19,000 a man. Cousins handed out raises. However, the team's black center, who didn't want to live in the South anyway, quit to join the American Basketball Association, and still another black start-

er asked to be traded (and was).

Cousins opened the salary floodgates. This spring, as Atlanta again considered funding the arena, he signed "Pistol" Pete Maravich, the highest scorer in college history, to a five-year, \$2-million contract. The rookie—a white southerner—could earn his keep in a coliseum, but not in the dinky 6,996-seat gym the Hawks call home.

What's more, the club's other stars want parity. Forward Joe Caldwell just jumped to the ABA because the Hawks refused to pay him \$300,000 a year. Tom Cousins' brother Bob, the Hawks' president, says sadly: "We made our bed. Now all the players are dissatisfied." But he adds: "We're not quitting. We are committed to two more years, for better or worse."

If the Hawks get a new arena, the team might yet pay off big. But without it, Tom Cousins could well be one of the owners who departs just before pro basketball's golden shower begins.

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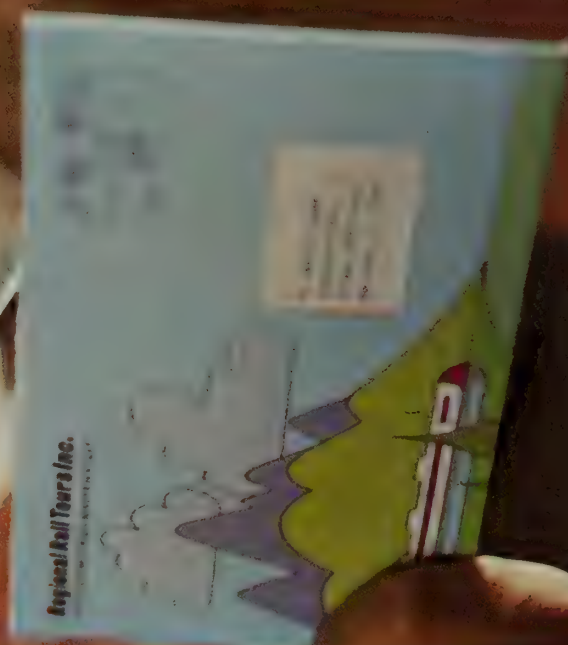
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Merchants of Death

The funeral parlor is beginning to succumb to the blandishments of the acquirers. But future undertakings may be less rewarding.

IF THERE are stirrings these days in the funeral parlor, the reason is not that science has found a way to revive the dead, but only that big business is moving into it. Lately, for the few companies that have been acquiring funeral homes, mortality has blossomed into a first-rate growth industry. With the dead and the living being what they are, the industry appears to be an unstoppable one, a natural for continued growth.

There are about eight national companies now acquiring funeral homes, excluding Kinney National Service, which is not acquiring, but which is still probably the biggest in the industry (its funeral revenues now run around \$15 million). Of the active acquirers, the three largest are Houston's Service Corp. International, International Funeral Services in Des Moines and Oakridge Holdings of Hillside, Ill. Expansion certainly has not hurt their earnings. On combined 1969 revenues of \$27 million, up 122% from 1968, they earned \$2.1 million, 175% more than in 1968. With synergism like that even in the early stages of acquisition, there is little wonder the acquirers continue their getting and spending.

The funeral home is tailor-made for acquirers. Like most businesses founded on conspicuous consumption, it is highly profitable, and, more to the point perhaps, it has the lowest failure rate of any American industry. Traditionally, it has been a family-owned-and-run business, handed down from father to son. And if beating the drums for business is unprofessional and expanding the market is illegal, the fu-

neral director can pretty much coin money if he establishes the proper reputation in his community. It is, says Howard C. Raether, executive secretary of the National Funeral Directors Association, "a personalized business." So the goodwill a chain buys is more than an accounting item. It is your friendly neighborhood funeral director and the cachet that he has in the community.

Rewards on Earth

Not only are funeral services highly profitable (after all, what other business has to pay so little attention to price considerations?), they are also uncommonly amenable to greater profitability through centralized ownership. Typically, the chains acquire not a single home but a group of them in an area, and profit from centralizing accounting and legal services, automobile operation, livery and embalming services and from the more efficient use of personnel. The total savings in labor alone can be substantial. According to Sam P. Douglass, who is president of Service Corp. International, which is the second-largest chain, about 35% of a typical funeral service firm's costs consist of personnel and equipment.

Paradoxically, though the present chains are shaping up as growth companies, funeral homes in themselves are anything but a growth business. Death may be more certain than taxes, and everyone ranks as a potential customer for the U.S.' 23,000 funeral homes, but a massive medical research effort is dedicated to postponing any market expansion as long

as possible. Result: a death rate—and a market potential—that is estimated to grow at only 2.5% a year through the next decade.

Then, too, building new funeral homes is economically unattractive, even where medical technology has not succeeded in depressing the growth rate. It costs between \$90,000 and \$500,000 to build a new funeral home, and then it requires years more to build the reputation necessary to make it profitable—longer than most corporate entrepreneurs can afford to wait. The problem is that perhaps 80% of a funeral home's customers use it because of their past association with it—not quite repeat business, but repeat visits. "We do not plan to build branches," Sam Douglass says. "What we want to do is become affiliated with reputable old firms."

This puts the funeral home owner in a particularly advantageous bargaining position. His home is desirable because so much of its value is in intangibles. Therefore he is under no pressure to sell, especially for stock that is going at high price/earnings multiples. Then too, at least one large, diversified company has been studying entry into the field; and as the competition for properties rises, the price of a good acquisition is likely to rise correspondingly.

But for the funeral business, even prospects as dazzling as these are not quite unclouded. As any funeral director knows, funerals are for the living, and the trend among today's young survivors is toward simplicity, away from the elaborate and costly ceremonies of their parents. Says one funeral director who inherited a 58-year-old business in a middle-class suburban community: "Young people today want to get it over with as quickly and simply as possible."

That could be the most disquieting trend of all. ■

Public Image. For many young people, the funeral is an occasion for satire, as in films like *The Loved One* (below), or for hysteria, like *Judy Garland's funeral* (right).





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When Rights Go Wrong

Buying stock at a discount seems a splendid idea, but it doesn't always work that way in a bear market.

THIS HARDLY SEEMS a happy time for most companies to make new offerings of common stock, but it is precisely the time when a good many companies must make them. They need money, and in an increasing number of cases they have already pushed their debt far beyond the point of prudence.

Hence the large number of rights offerings these days. Rights, of course, are options issued to shareholders on a pro-rata basis, allowing them to buy additional shares. Usually, the offerings are attractive to stockholders because the subscription price is somewhat below the market price; thus the stockholder normally either exercises his option or sells it to someone else who exercises it. (If a company offers one new share at \$50 for every 15 held, when the stock is at \$55, each right will be worth about 33 cents—since 15 rights gives the privilege of buying one share at \$5 below the market price.)

Not all rights offerings involve common stock. Sometimes they involve convertible debt or preferred stocks, and warrants are sometimes added.

In theory, companies should raise money through this kind of offering

when things are going well and their stock commands a high price. But it doesn't work that way. The tight money and credit conditions that have helped bring the stock market down have also forced many companies into the equity market.

For American Telephone & Telegraph, whose need for growth money seems almost insatiable, rights offerings have been a real lifesaver. Just last spring, for example, AT&T raised \$1.5 billion in the biggest rights offering of them all. The giant utility sold out its \$100 packages, consisting of a 30-year debenture and two five-year warrants, which the market valued at \$120. Firms like Xerox and Bulova also have taken the rights route for capital this year. The Federal National Mortgage Association is scheduling an offering of 1.1 million common shares on a one-for-eight held basis. And Libby, McNeill & Libby has a one-for-one offering in the works to raise more than \$30 million.

Are rights offerings a good deal for stockholders? Not always, by any means. Motorola stockholders, for instance, subscribed late in 1969 for new shares at a 16% discount from the market price of 74 (see table).

Subscription Rights

Company	Stock Record Date	Terms*	Stock Price At Record Date	Cost of Stock Purchased With Right	Stock Price 2 Mos. After Offering	Stock Price Recent
Alaska Airlines	6-2-70	5-2	7 1/8	6	5 1/4	5 3/4
Consolidated Edison	5-21-70	12-1	25	22 1/2	23	23 1/4
Consumers Power	6-10-70	18-1	28	26 1/2	30 1/4	31 1/4
Delmarva Power & Light	7-8-70	16-1	16 3/4	14 1/4	17 1/2	16 3/4
Detroit Edison	6-25-70	10-1	18 1/8	16 1/4	17 7/8	18
First Lincoln Financial	10-2-70	4-1	5 3/8	4	—	3 7/8
General Public Util.	5-18-70	20-1	19 5/8	17 1/2	18 5/8	19 1/8
Kimberly-Clark	6-13-69	10-1	31 7/8	28 1/4	33 1/2	31 5/8
Long Island Lighting	5-27-70	10-1	18 3/8	17 1/4	21 1/4	22 1/8
Motorola	11-6-69	13-1	74 3/4	62 1/2	62 1/2	46 1/2
New York State E & G	10-29-69	10-1	32 1/2	30	29 7/8	28 3/8
Niagara Mohawk Power	8-28-70	10-1	14 1/4	13	14 3/8	14 1/8
Pacific Gas & Electric	6-16-70	25-1	22 7/8	21 1/4	25 7/8	27
Pacific Power & Light	6-25-70	10-1	17	15 3/4	17	17
Pennsylvania Power & Light	9-10-70	10-1	21 1/2	20	—	20 3/8
Philadelphia Electric	10-1-70	10-1	19 3/4	18 3/4	—	19 1/8
Public Service E & G	9-16-70	10-1	22 1/8	20 3/4	—	22 3/4
South Carolina E & G	2-25-70	10-1	24	21 3/4	25 1/4	23 3/4
Standard Oil New Jersey	2-13-70	25-1	52	45	55 7/8	69 1/8
Valley National Bank Arizona	4-23-70	10-1	24 1/8	20	24	24 3/4

*Example: Consolidated Edison (12-1) shareholders of 12 shares given 12 rights to purchase one share.

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THESE HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION REPRESENTATION TO THE PUBLIC

Ballooning. Rights offerings are mammoth in 1970. AT&T raised \$1.5 billion, Standard Oil (New Jersey) \$500 million.

But by the end of the rights period, Motorola was down to 68, and continued to drop into the 46 range. Shareholders also have seen discounts disappear in offerings of Government Employees Insurance Co. and Alaska Airlines, as well as in some over-the-counter rights offerings.

Nicholas Witte, trading department head for the nation's leading underwriter, First Boston Corp., says that rights offerings tended to have a cycle. An issuer's stock would be up at the start of the offering, would decline as shareholders sold off their rights and would pick up again just before the expiration date. "But that's been disturbed often enough recently that people don't really expect it anymore," Witte says. "Investors are gunshy," notes a partner in another large Wall Street underwriter. "People have been burned."

Of course, a rights offering can also turn out beautifully. Xerox, which has used the rights method before, last month offered its shareholders \$155 million in convertible debentures at \$100 for each 50 shares held. Convertible into common stock until 1995, the debentures recently were trading at 121. ■

As They See It

Automan Semon E. (Bunkie) Knudsen talks about the future of the auto industry. Businessman-scientist Dr. Henry Singleton, chairman of Tele-dyne, tells why he's not worried about the future of his conglomerate.

At 58, Bunkie Knudsen could easily afford to go fishing; on his own and on what he inherited from his father (auto pioneer William "Big Bill" Knudsen), he is a millionaire many times over. His abrupt firing from the presidency of Ford last year hurt his ego but not his pocketbook.

"Go fishing? Why should I go fishing?" Knudsen retorted when he picked up *FORBES'* Kenneth Schwartz at a Birmingham, Mich. motel late last month. "I could take all my money and invest it, but I like to make things. It wasn't whether I'd go back to work or not; I never did stop working."

Knudsen discussed how he had talked about taking over the top spot at General Dynamics, "but negotiations dragged on too long." Under terms of his contract with Ford, he couldn't work for another auto company without losing his stock bonuses and a salary of \$200,000 a year through 1972. There was still his directorship of UAL, Inc. (parent of United Air Lines) and of a bank in Florida and his membership on the Board of Trustees at Massachusetts Institute of Technology. But such things are only extracurricular activities for a man like Knudsen.

For his main activity, he commissioned a blitz study on the motor home market. "We knew this was hot at Ford," he said, "but this kind of market isn't big enough for an auto company." He liked what he saw, and his new company, Rectrans, Inc. was born. He bought an old mobile home factory and recruited a young and top-notch staff from General Motors and Ford. He expects to be in production by Dec. 1.

"Why motor homes?" *FORBES* asked. "Because they're in tune with what the young people today want."

We asked him to elaborate. We didn't have to prod him. He began by talking about the changing role of the automobile today.

"Young people today are interested in pollution and ecology and the issues of war and peace. Cars just don't mean the same thing to them. You take that clean-air race they put on recently. Those were all young people driving anything. The point was that it was something that got them from one place to another, not what the vehicle looked like or what its power was. They even used steam-driven

jobs and electric cars. That tells a lot."

So, what has this got to do with motor homes?

"People, particularly the young ones you see around these days in their long hair and blue jeans, are still interested in material things, but in a different way. It isn't that these young people don't have money to spend. They are very affluent. But a car is only part of what they want. They are spending on other things while putting less into their cars.

"I was over in Birmingham the other day where I keep an office and which is a suburb of Detroit. I walked into a camera shop and there was this young fellow, maybe in his late 20s or early 30s, with the usual garb young people have—long hair and so forth. Now, he was buying a Hasselblad camera. And they're not cheap, you know, maybe as much as a thousand dollars by the time you get the whole photographic system.

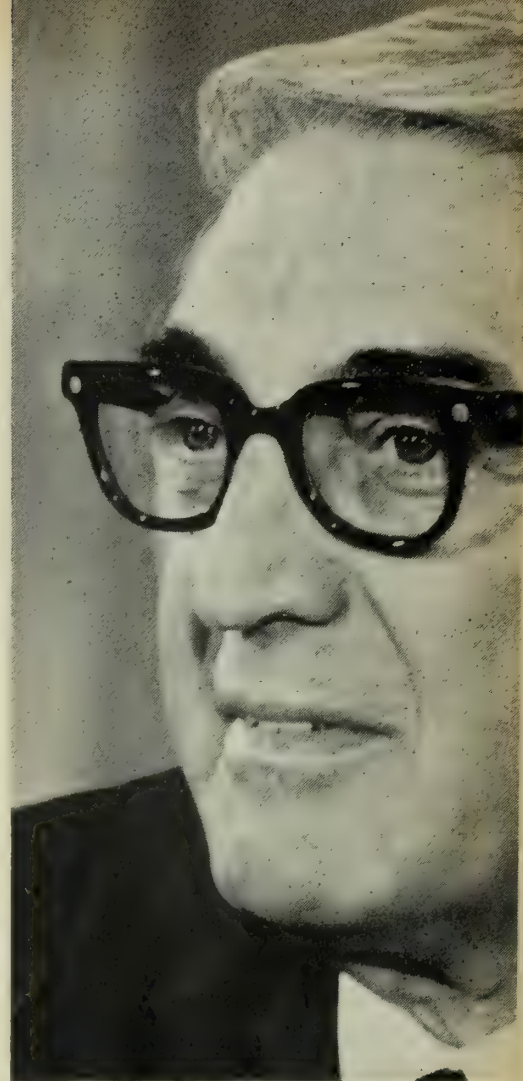
"Well, he got it and I watched him go out to a car. But you know what he got in? A Ford Econoline bus. That intrigued the hell out of me. So I walked out of the store and over to him and asked if the Econoline belonged to his boss. He said, 'No. That's my car. I love it. I can carry everything in it, including paintings that I also buy.' So I asked him if he had another car. He said no, that he didn't need one because this one did it all."

We saw what he was driving at. A motor home is transportation but it is more, too.

"Our first model, the 25-foot Discoverer, is a vehicle with a specific function. It fits right into the new kinds of life styles that are affecting passenger cars. The machine fits into the way people want to live.

"If you don't believe it, just look at the way all recreational vehicles, particularly motor homes, are growing in volume. Passenger car sales are off, but motor home sales were up 60% through August of this year. And they've been going up almost at the same rate for the last few years.

"The kind of motor homes I'm talking about aren't cheap either. They are in the \$12,000 to \$15,000 class. They're fully self-contained, self-propelled and come with the works—bathtub, stereo, range, oven, refrigerator, carpeting, air conditioning, seats



Knudsen of Rectrans

that can be converted into beds, etc.

"You see, I didn't just jump into this market. After I left Ford about a year ago, I had a study done among 2,000 motor home owners. Now, nobody in the motor home business ever did such a study the way I am used to doing in the automobile business. Now, what we found out won't—and will—surprise you.

"What you probably already know is that the primary market for motor homes is made up of retired people. It's their vacation home on wheels. That market also is going to get bigger with early retirements.

"What may be more interesting is the big growth market among younger people, maybe bigger than the retired market in the end. With them, it is like the guy with the Hasselblad. They're willing to spend for the kind of life they want to lead.

"The possibilities also are endless. What the car rental companies did with passenger cars they are beginning to do with motor homes. In Canada, and I expect it to spread in the U.S., the airlines have these pack-



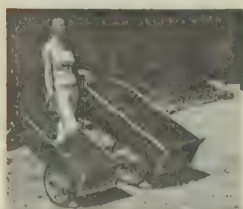
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As They See It

ages where a guy and his family fly in and rent a motor home for their vacation.

"As the cost of hotel space goes up, as current recreational areas for things like skiing get more crowded, I think that you'll find more young families turning to motor homes. That doesn't lock them into an expensive hotel or motel reservation."

We asked whether all this meant curtains for the prosperity of the motor industry as we have known it. Loyal automan that he is, Knudsen didn't say "yes" to our question, but he didn't say "no" either.

"I don't think people look on cars as status symbols the way they did. They are interested in transportation

per se. I think that the whole business will continue to grow. But I think that because of the reasons I've discussed the composition of the auto market is changing. If a man buys a motor home, he may not buy a second car. If a man buys two snowmobiles, he probably isn't going to buy as expensive a car. Even if he has three cars, he probably will have three less expensive ones than he had before. There will always be a market for the bigger car. But not the way it was.

"Obviously, as these things happen, they are certainly going to have an effect on the financial position of the automobile companies. I'll leave that to you to figure out."

IT HASN'T done Teledyne, Inc. much good that its reported earnings for the first nine months of fiscal 1970 were actually up 6.4%—to \$1.50 a share—from last year. Most people tend to look at the dark side of the conglomerates these days, and Teledyne certainly looks like a conglomerate—a \$1.3-billion-sales outfit put together out of something like 145 acquisitions in less than ten years. There is also the fact that its gains this year came from a big insurance subsidiary, control of which it gained in 1967; Wall Street looks askance at this kind of earnings this year.

So this Los Angeles company, which sold as high as 60 times earnings a few years back, now sells at barely ten times expected 1970 earnings. *FORBES* went to the chairman, Dr. Henry Singleton, 53, the visionary businessman-scientist who put Teledyne together. We wanted to know how he felt about all this.

He indicated he didn't feel much of anything at all.

Tall and polished, Singleton has blue eyes that seem to look right through his audience. When he talks about his company, he sounds more like Winston Churchill than a standard businessman. Still, the sincerity, the conviction, shine through. When *FORBES* met him in the mid-Sixties he talked grandly of building Teledyne into one of the great corporations of all times. His attitude is no less confident now. For example:

"We're an industrial company in the United States free enterprise economy, attempting through competitive means to make our way in this society of companies. We don't refer to ourselves as a conglomerate, but we don't care what other people call us."



Singleton of Teledyne

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As They See It

Taken somewhat aback, we asked him what kind of progress he was making in integrating his acquisitions into a cohesive whole, of meshing aircraft companies and metals companies and electronics companies and insurance companies and. . .

He interrupted us. "We don't do any of that. We've always had our companies run autonomously. We neither integrate nor digest companies. We integrate them only by having them adopt our financial reporting and control systems. That's the end of our integration.

"However, sometimes we'll take a company that has always reported as one company but that has two or three separate operations, and we'll split that into two or three separate companies. Or we'll take a few separate companies and consolidate them into one. But this is for reporting and control purposes, not for synergy.

"We've heard all that talk about synergy. Many of those companies are now down the drain. These types that buy badly managed companies and revitalize them and have instant profits. We never claimed that. We tried to buy good companies to start with. We don't think there are supermen who can renovate them and transform them into wonderful, highly profitable enterprises.

"We can't do it, and history shows that nobody else can do it, either."

We dropped the conglomerate questions and reminded him that a few years back he had mentioned General Electric as a model for Teledyne.

"What I had in mind was to emphasize the diversity of products GE makes and how the products of GE tend to hang together more than in some of these companies that go all over the lot. I mentioned GE because they had central management but decentralized operations, generally based around a certain kind of technology. Over the years they spread out in a natural kind of way. I think they had a coherent way of going about expansion, and I mentioned them to give a picture of the direction in which we were heading.

"We don't have the great diversity characteristic of a company like ITT. We're not intrigued with the real estate business, hotels, restaurants, all those service businesses everybody say are the wave of the future. I don't happen to believe they are."

We tried another tack. What, we inquired of Singleton, about Teledyne's heavy dependence on aerospace?

He rode that one down, too.

"We are interested in certain areas of endeavor, which include aviation products, aviation control systems. Whether defense spending is up or down is not going to deter us from proceeding. I'm not going to get out of this business because of some waxing or waning in defense spending.

"In fact, defense spending being down might make these investments a little more advantageous because the price isn't so high. At the time we acquired Ryan Aeronautical [in 1969], if there had been the prospect of substantial increases in defense spending, the previous owners might not have been willing to sell."

If all this sounds offhand and infuriatingly nonspecific, we hasten to add that Singleton has always talked like this, but one certainly can't fault his results to date. Teledyne will report earnings of around \$2 a share for this year, as compared with 44 cents in 1965.

Anyhow, we tried again to talk specifics. We asked Singleton about reports that he had taken his Continental Motors subsidiary out of the big military truck engine market.

"It's not a matter of getting out. What we've done is discontinue bidding at such low prices that we either lose money or tie up facilities in a useless, profitless way. We've continued to bid, but in such a way that we're pretty nearly sure to lose the bid."

What does Singleton have to say about criticism of the accounting used by multicompanies like Teledyne?

"This is a nothing controversy, a mountain out of a molehill. It's very easy to see we're making money. We have been able to pay off \$200 million in short-term debt since 1969. If we were able to do this at a time like today, we've got to be making money somewhere along the line."

Singleton allows he isn't much worried about charges that Teledyne isn't readily available to the press and to financial analysts.

"We've seen what happens to companies whose chief executive gets the best press. They are often the ones who end up with the least profits.

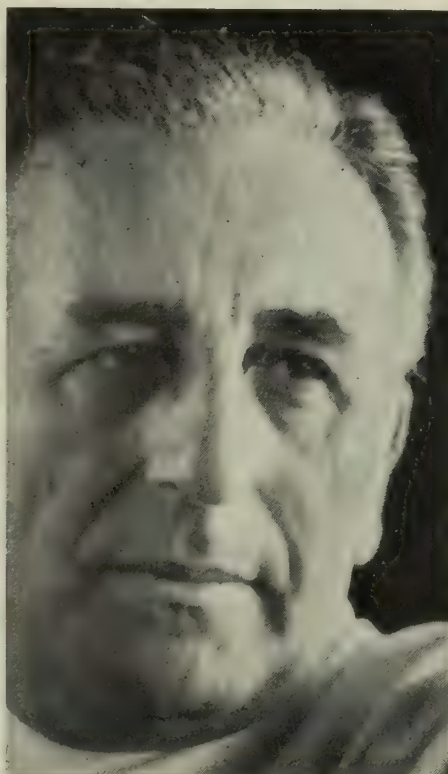
"We're doing what we've always done. I've never been a person who vacillates back and forth with the ups and downs of the economic cycle.

"If others don't agree with what we're doing, we'll just have to let the future determine who is right and who is wrong."

Fair enough. ■

Faces Behind the Figures

Inventor Koppleman



Genius, but Not Mad

EDWARD KOPPLEMAN, 59, of Los Angeles, calls himself an inventor and he is an inventor. But forget those stories about the absent-minded genius who dies broke. Koppleman has just sold his latest invention for \$38 million. In cash. To be paid in 20 annual installments. He got the money for selling Western Canadian Seed Processors Ltd. a process for converting rice hulls—formerly waste—into carbon black, furfural (used in making nylon) and acids.

"It's a pretty tidy sum," says Koppleman, "but then some of my other inventions over the years have also involved pretty substantial amounts. Money is a very peculiar thing, and the only reason people will pay you amounts like what I'm getting is that they can get even more out of it. It's like my last invention for three-dimensional weaving for radar screens, which involved a pretty substantial amount. Hitco did very well by it."

Koppleman says he has had eight successful inventions, starting with the first de-icer for windshields of airplanes in 1938.

Who is Edward Koppleman, and how did he get so smart?

We'll let him tell the story pretty much in his own words.

"When I graduated from New York University in 1933, I graduated in accounting because they seemed to be hiring more of them in those days. I'd always been interested in mechanical things and was very active with my hands. But it was hard to get a job as an engineer then. I soon found I really couldn't take it as an accountant—sitting behind a desk. So after six months I quit and ended up digging ditches. From there I got a job as a timekeeper in an auto supply house and then worked my way up to be a salesman.

"At that time I realized that there was a huge market for reconditioned auto parts that no one was in. Eventually I started my own company selling these reconditioned parts, and we managed to do quite well.

"This was about 1936, and I worked quite near to LaGuardia Field. From talking to the people around there I got the idea for the de-icer. Before that, the planes couldn't fly half the time in cold weather. The way we tested it was to fly into ice storms; there were no wind tunnels in those days. The first one I made worked." Eventually a

modified version of his invention was used during World War II on DC-3s.

Already rich in 1967, he says, "I thought I'd have a crack at the ecology thing. I began to realize that industry couldn't keep on creating all this waste and that at some time they'd have to start recycling it. Then I started looking for an area to work in, and I remembered going through a rice mill in Egypt a number of years ago, and that one of the main problems that the miller had was what to do with the rice hulls. You can only plow so much of that stuff under the ground, and it burns very badly and slowly."

So Koppleman went to work and had his system tested at Stanford Research Institute, and emerged \$38 million richer from his new process. Explains he: "The process I've worked out will be good in any country that has central milling, such as India, Korea, South Vietnam, and I have all sorts of ideas for the types of industries that can be built around it."

Does he do all this for money? "Not really," says Koppleman, "though the money is nice for my family. I just like what I'm doing and have a lot of energy." ■

Put 'Em Back the Way They Was

SOONER OR LATER a new theoretician of the post-conglomerate era had to emerge, and last month William Meng Duke, 54, guiding genius of California's Whittaker Corp. materials conglomerate, began to sound as if he was it. In a 32-page *Primer on Pluralism*, Duke and Vice President William Kleiman outlined a dazzling new strategy for the troubled conglomerates.

After a corporation reached a certain size, Duke explained carefully, Wall Street expected its growth to slow and so invariably assigned its common a lower price/earnings ratio. This slowed its growth even more by making stock acquisitions more difficult. Compound this with a recession, tax and accounting changes and high money costs, and any self-styled go-go company had better come up with a scheme for self-renewal.

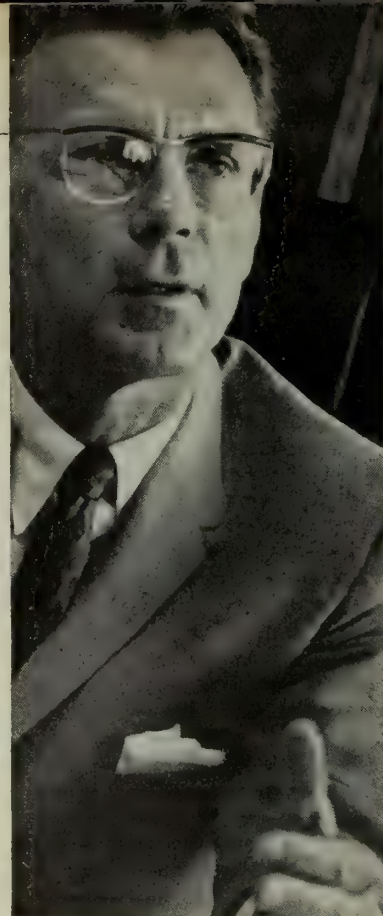
Certainly Whittaker itself filled most of Duke's diagnosis. Its growth had begun to slacken. Nine-month sales were up 22% (to \$670 million), but what was 22% to a company whose annual sales were only \$100 million four years ago? Whittaker's P/E ratio had indeed come down from a high of 58 in 1967 to around ten recently, but

that could hardly be blamed on size. The fact is, fully diluted nine-month earnings were off 30% despite that 22% gain in sales.

The solution to such conglomerate constipation, Duke argued, was pluralism—"taking one company and making five, six, ten or 12 companies out of it, each with a relatively narrow product spectrum, its own common stock, officers, etc., and each with its own growth potential." A simpler term, Duke conceded blandly, might be *deglomeration*. For Whittaker, the opportunities were considerable. Whittaker's multiple was already so low it couldn't get any lower, "no matter how many attractive elements are extracted," and Whittaker had already deglomerated Computer & Software and Dynasciences, with others yet to come.

"Deglomeration is much more sophisticated and difficult than conglomeration," Duke said. Those operations "that are not an integral part of our material systems business and do not have the potential to contribute importantly in a synergistic sense are earmarked for pluralistic potential." The idea is that such elements "can be cast loose without materially changing the ability of the entire company to continue going its own way."

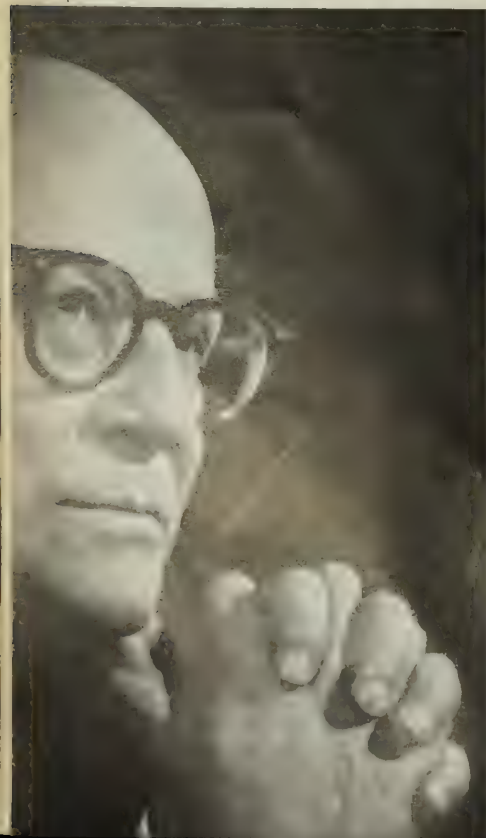
Duke appeared to have plural-



Duke of Whittaker

istic potential himself last month. Without warning, he abruptly stepped down as Whittaker's chief executive—to take over as head of a new Whittaker subsidiary, Sciences Management Corp. ■

Cournand of Lanvin



An Old Promoter Cashes In

WHEN Squibb Beech-Nut announced plans last month to acquire Lanvin-Charles of the Ritz, the price, nearly \$200 million, amounted to 28 times earnings and eight times book value. That's a lot for something that started just after World War II as a piece of paper in Edouard Cournand's pocket.

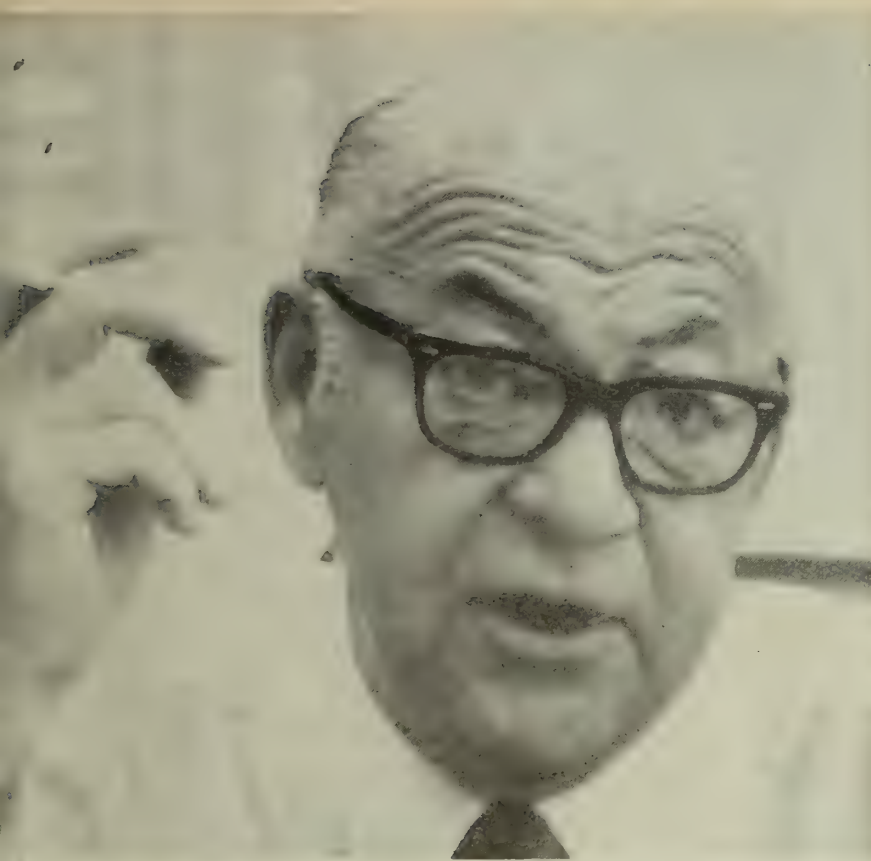
The piece of paper was the U.S. franchise for the then little-known products of French perfumer Lanvin. Cournand, who proudly declares, "I am a promoter," made Lanvin a best-seller with such devices as purse-sized perfume dispensers and the ad slogan, "Promise her anything, but give her Arpège."

Actually, Cournand will benefit only modestly from the sale to Squibb Beech-Nut. In 1963 he sold Lanvin Parfums to Charles of the Ritz. He and his wife have retained about 150,000 shares, worth some \$6 million. However, with

the money he got out of the Ritz merger (\$4.5 million) plus investments in other ventures, Cournand has a net worth of somewhere around \$10 million today.

Born in France and a pioneer aviator in World War I, Cournand introduced skywriting to South America in the Twenties, lost money trying to sell shoes to Soviet Russia, imported Vichy water into the U.S. during the Depression. During World War II, he made plastic bubbles for airplane cockpits. After World War II, he concentrated on the Lanvin franchise.

Cournand will not come out quite as well in the merger as did Richard Sakomon, the Charles-of-the-Ritz man, who will come out with close to \$50 million in stock. Still, Cournand went a long way on a piece of paper. His plans for the future? "I will welcome the secondary offering that's slated to follow the merger so I can unload some of my stock." ■



Levin of Madison Square Garden

A New Gardener

REAL ESTATE DEVELOPER Philip Levin has rebounded from his failure to acquire Metro-Goldwyn-Mayer in 1965 to become heir apparent to New York's Madison Square Garden Corp.

The comeback has been hectic, to say the least. Since last year, the 61-year-old millionaire has fought the Garden to a stalemate over control of Roosevelt Raceway, weathered an abortive probe by Illinois authorities, swapped multi-million-dollar lawsuits with a busi-

ness associate and lost about \$250,000 (with his wife) by investing heavily in Parvin/Dohrmann stock.

Only two months ago, it looked as though Levin's bad publicity would keep him out of the picture at the Garden. In fact, the Garden seemed about to take over Levin's tiny Transnation Development Corp. and Long Island's profitable Roosevelt trotting track.

Well, all three are combining—but not as the Garden's Irving Mitchell Felt apparently had planned. Under terms announced last month, Levin will become president, chief operating officer and head of the new Garden's executive committee. Felt remains chairman and chief executive. But will Felt stay on with Levin?

Felt will own only one-tenth of 1% of the Garden's stock. And he can't expect much support from his old benefactor, the bankrupt Penn Central Transportation Co., which will own about 10%. Levin will have around 11% and an option to acquire more. His friends at Gulf & Western, which spun off Transnation in 1969, will own 14%.

Levin isn't explaining exactly how he got such favorable terms from Felt. However, it is an open secret that the Garden's financial position is very weak. Something had to give. And Levin was there to take. ■

Boss-San

JAMES MILTON VOSS, 54, is a tall, good-humored bear of a man who took over a few weeks back as chairman and chief executive of giant Caltex Petroleum Corp. He is the first Caltex man to head Caltex since Texaco and Standard of California put it together 34 years ago (its previous bosses came from the parent companies). Voss has one of the toughest jobs in the oil industry. Caltex' parents are barely civil to each other. As old U.S. marketers, each has its own notion of how things should be done, and Caltex has often been caught in the middle. In 1967 Texaco even succeeded in spinning off Caltex' European properties, and it would probably not be averse to breaking up the rest if it could do so to its own benefit.

Even minus its European proper-

ties, Caltex is one of the world's dozen largest oil companies. With \$1.7 billion in sales and \$1.1 billion in assets, it exists chiefly to sell its parents' highly profitable crude oil, and its operations are largely in the East (Japan, Indonesia, Australia and the Philippines), one of the oil industry's great growth areas. About half of Caltex' sales are to Japan, where its product volume has risen fivefold since 1960.

Japan is largely responsible for Caltex' success, and Voss was largely responsible for getting and keeping it there. As a young attorney, he was the architect of the agreements Caltex made in the Fifties with Nippon Oil, now Japan's No. One marketer. As he moved up through the Caltex hierarchy, he diligently nurtured and protected those agreements, as often as not over the parents' bitter opposition. In Japan, Voss is addressed as *Boss-*

San (V comes out B in Japanese and the *San* is honorific). Clearly the Japanese have been onto something from the beginning. ■

Voss of Caltex



FORBES

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Although most major publications have announced advertising rate increases for 1971, FORBES is one of the few that will hold the line. There will be no increase in FORBES' advertising page rates or costs per page per thousand circulation (CPMs) during the upcoming year.

Here is how some of the magazines, that will increase their costs "just a few cents" in 1971, compare with FORBES:

	1971 CPM INCREASES	
	Black & White Pages	4-Color Pages
FORBES	0¢	0¢
Time	6¢	27¢
Business Week	12¢	22¢
Newsweek	17¢	29¢
U. S. News & World Report	29¢	46¢
Fortune	30¢	47¢

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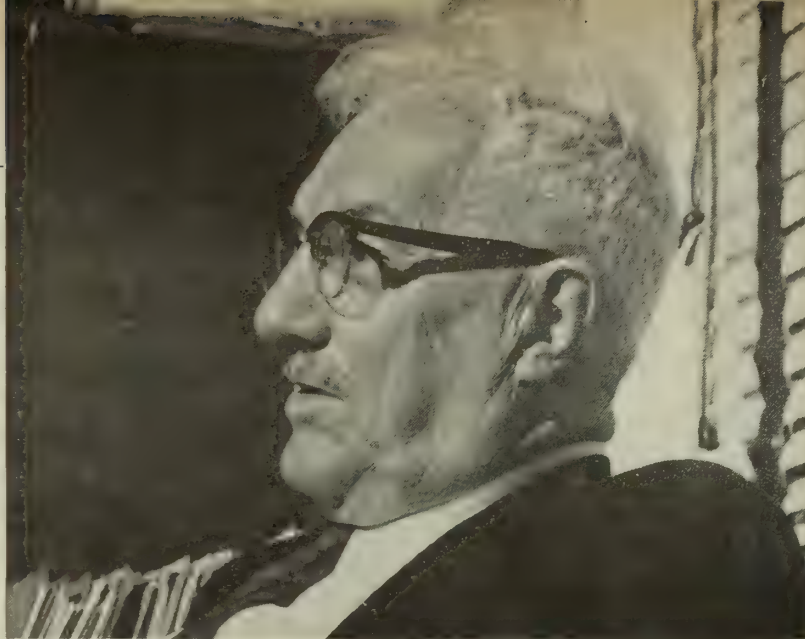
Forbes: capitalist tool

Old Crusaders and New

IN THE THIRTIES, Consumers Union, publisher of *Consumer Reports* and a pioneer U.S. consumerism organization, was regarded by many conservatives as being dangerously radical. But no more. Today *Consumer Reports* has a circulation of 1,950,000, and CU's long-time president, Dr. Colston E. Warne, 70, is a tall, soft-spoken ex-Amherst professor of economics who wouldn't frighten the most paranoid Bircher.

Says Warne: "We started out with crusading fervor to help the poor devil at the bottom. But the world got turned upside down. The median income of our subscribers today is \$14,000. They subscribe to save money on hi-fi sets."

Don't think, however, that just because CU now is respectable that it is timid and cautious. Not at all. It recently took the U.S. Veterans Administration to court and forced it to release test data on hearing



Warne of Consumers Union

aids. And last month, CU issued a press release urging Ford to recall 5 million automobiles it said had a safety defect. Result: an immediate warning by the National Highway & Safety Bureau to motorists.

Behind CU's renewed militancy, some see the hand of Ralph Nader.

The self-appointed consumer crusader sits on CU's board of directors. Dr. Warne points out that he and other old-line consumerists have learned something from Nader: "Consumerism hasn't been hurt by Nader's singular capacity to time his press releases," he says. ■

Jungle Training

WHEN Dow Chemical (see p. 42) taps the money market to finance its huge capital program, as it did last spring for \$150 million and plans to do for \$150 million more by the year's end, it can rely on the expertise of a man with curious qualifications. The man is Paul F. Orefice, Dow's director of financial services since last year. "What got me the job," says Italian-born Orefice, 42, "was mostly my stay in inflationary countries."

Many U.S. businessmen view 4% annual inflation and 8% to 9% interest rates as criminal. Not Orefice: As head of Dow's Brazilian subsidiary, he lived with 40% inflation a year and interest up to 36%. Yet Dow-Brazil was highly profitable. Inflation needn't be unbeatable, he contends. "If a company prepares correctly and guesses right on the magnitude, it could come out without being hurt at all."

To do so, however, means violating many a sacred American business dogma. Instead of maintaining a lot of working capital, he says, "one of the best defenses against big inflation is to have practically no working capital." Most U.S. businessmen like their accounts receivable high and their accounts

payable low. But in a big inflation, says Orefice, "it is good if you can have more payables than receivables." In such a setting a company should borrow. It should buy at fixed prices and try to sell at flexible prices: "In Brazil we once rewrote our entire price list three times in eight days."

Dow's \$300 million in new debt will cost the company some \$26 million in interest per year. But with inflation, the \$300-million principal can be paid back in cheaper dollars. For example, assuming 4% inflation, in 1980 it would take the equivalent of only \$68 million in 1970 dollars to pay back each \$100 million of debt, reducing the real interest cost to about 5%. Hence Orefice thinks companies that shelve viable projects merely postpone the time when they can tap new profit sources. "I personally think we will have to learn to live with 4% annual inflation and 8% and 9% money."

But aren't high interest rates supposed to dampen inflation? "Economists blanch when I say this," retorts Orefice, "but I think high interest rates breed inflation. The human mind adjusts very fast. Two or three years ago most people would have said 8% was usury. Now people are adjusted to it." ■



Orefice of Dow Chemical

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ment of Commerce estimates that discretionary income is growing fast enough to more than double by 1980. And the more "extra" money people have, the more they spend on convenience foods and beverages.

If you'd like a list of our latest recommendations in the food and beverage industries, call a Merrill Lynch Account Executive. Our analysts have picked out 6 companies that we think offer a chance to earn above-average capital gains this year and next.

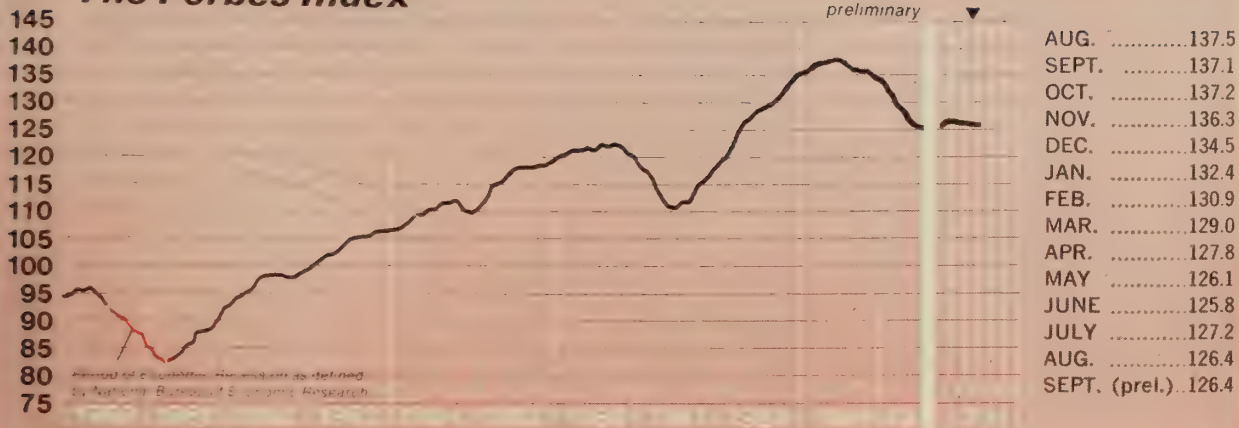
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Production

- How much are we producing? (Federal Reserve Board Index of Industrial Production)
- What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders and backlog orders related to inventories)
- How intensively are we building? (Dept. of

Commerce privately owned housing starts)

Consumption

- How much are people spending? (Dept. of Commerce retail store sales)
- To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
- How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

Income

- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
- How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper

"Free & Clear"



Do you own your house "free and clear," or is there a mortgage on it? If it is free and clear, the chances are that you are proud of it. Your equity is the whole property, not just what is left after the creditors take theirs. There's no interest for you to pay; and, if you need money, you can borrow against an unencumbered title.

But how about the stocks you own? You may own them "free and clear" of "margin" debt, but if there are company bonds or preferred stocks outstanding ahead of them, your equity is a diluted one. The corporation must service the debt and the preferred dividends before it can pay dividends, and there are usually some other limitations in the bond indentures. In many cases the equity in your common stock is considerably mortgaged. In the case of the average electric utility, for instance, the common stock equity is only about 30% to 34%, bonds and preferred stocks accounting for the rest. Utility earnings are fairly steady. In some of these new conglomerates, your equity is as little as 5%.

Fifteen or 20 years ago, there were

several hundred common stocks traded on the New York and American stock exchanges and over-the-counter which had no bonds or preferred stock ahead of them. Without actually counting, I would say that today there are less than 100, if you eliminate the banks and the insurance companies. I had little trouble finding 25, but gave up before I had listed as many as 50 really prominent ones. Most of them, I discovered, are equities of service companies rather than of manufacturers of physical goods, or of drug or food companies. There are no rails, no utilities.

Stressing Debt

Our tax laws in late years have encouraged corporations to finance through bonds and notes and other borrowings rather than through common stocks. Interest on debt, you see, is rated an expense for tax purposes and is fully deductible. Since the corporate tax rate has been close to 50% for most companies, only about half of the interest paid on debt is an out-of-pocket expense. Even if you pay 9% interest (as some good companies recently have on Aaa bonds), the real cost to the company is only

4.5%. Many companies which *could* have sold shares, and *should* have sold shares at the high prices for stocks in late years, have thought it profitable to accumulate debt rather than to increase common capital.

There's often another factor encouraging debt. Debt gives the common stock more leverage; and in a good year the per-share earnings of a highly leveraged common stock will be larger than that of an unleveraged one. For instance, if company A, which has 100,000 shares outstanding, needs \$10 million of new money, it has two choices: It can sell \$10 million in bonds at 8% or 100,000 shares of stock at \$100. Suppose earnings before interest double from \$1 million to \$2 million as a result of this financing. With \$10 million of 8% bonds and 100,000 shares of stock, net per share would be \$12, but with 200,000 shares and no debt net would be \$10 a share. Actually, the spread would be a little wider than that because of the impact of taxes. The trouble with the leverage incentive is that too many corporations have carried the idea much too far.

Not long ago, too, there was a prejudice against companies which had a lot of cash, or had not borrowed as much as possible. It was contended that managements of these companies were not aggressive and that their shares should be avoided because they were burying their talents in the ground instead of putting them out to gain other talents.

I am discussing in this column only companies with neither debt nor preferred ahead of the common. Out

Mr. Hooper is associated with the New York Stock Exchange firm of W. E. Hutton & Co.



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of 25 companies chosen for study, I have selected ten to tabulate (*below*) and discuss briefly. These ten recently sold at an average of 13.5 times estimated earnings for 1970 to offer a dividend return estimated at 4.46%. Among those others which might have been included are *Carter-Wallace* (13), *Dr Pepper* (19), *Dun & Bradstreet* (46), *Max Factor* (35), *General American Oil* (39), *Andrew Jergens* (22), *Polaroid* (65), which I regard as too high, *Skyline* (27), *Thomas & Betts* (34), *Hiram Walker* (42) and *Wrigley* (109).

The ten issues represent good-sized companies and leaders in their field. *Briggs & Stratton*, which has paid dividends each year since 1927, is important in automobile locks and is probably the biggest factor in small gasoline engines used in lawnmowers; sales were \$187 million in the year ended in June. *Campbell Soup* has paid dividends since 1902; sales last year were a few million short of a billion. Profit margins have always been high. Campbell is becoming increasingly important in convenience foods other than soups.

Chicago Pneumatic Tool has paid dividends since 1941. In spite of the somewhat cyclical nature of the pneumatic machinery business, sales and net profits have grown consistently in recent years. *CTS Corp.* is an important maker of variable resistors for TV sets and of other electronic items. It has many new products in the micro-electronics area. Like all stocks related to electronics, the issue has had a big decline; it dropped from 39½ in 1967 to a low of 11½ this year. It is more speculative than most of the other issues tabulated.

Great Atlantic & Pacific Tea is the world's largest supermarket company and ranks second only to Sears as a volume retailer. The widely held opinion in investment quarters is that the management should be able to do a better job translating the company's excellent consumer acceptance into

larger per-share profits. Earnings, profit margins and inventory turnover have been remarkably steady without showing any outstanding growth. At about ten times earnings to return 5.2%, the stock is not expensive. Nor does it look dynamic.

Handleman is the largest independent wholesale merchandiser of phonograph records. Sales, earnings and dividends have shown a consistent growth, which entitles the stock to be dubbed a growth issue. At 19 times earnings it is, of course, selling at a growth price. *Johns-Manville* has paid dividends since 1927, except for 1933 and 1934. The company has not shown any outstanding growth in recent years, and the stock does not seem cheap at 17 times earnings in spite of its quality. *Maytag* has grown consistently and without interruption for a long time. I am not at all sure, however, that I would prefer it to *Whirlpool*, which is a much larger company and has a more complete line of household appliances. *Whirlpool* of course, has a debt of about \$110 million, while *Maytag* traditionally has had none.

Smith Kline & French, after a long lackluster period, seems to be entering a more dynamic era of its corporate life. The company's research expenses are exceptionally large as a leader in drugs for mental disorders and veterinary products and it does a growing proprietary business in cold remedies and cosmetics. I have owned this stock for many years and have great faith in the management.

Timken Co. has not grown much in recent years, but it has been a steady and dependable earner and dividend payer for nearly 50 years. At ten times earnings to offer a dividend return of better than 6%, the stock has real appeal to the conservative investor. About 60% of Timken's business is related to products that make war on friction. The company is also important in rock bits and specialty steels. ■

Ten Common-Stock-Only Companies

	Recent Price	Ind. Div.	Ind. Return	Earnings per Share		P/E Ratio
				1971*	1970	
Briggs & Stratton	48	\$2.65	5.4%	\$4.50	\$4.01	10
Campbell Soup	28	1.10	3.9	1.90	1.54	15
Chicago Pneumatic Tool	32	2.00	6.2	3.25	3.45	10
CTS Corp.	16	0.40	2.5	1.45	1.40	11
Great Atlantic & Pacific	25	1.30	5.2	2.50	2.15	10
Handleman	24	0.68	2.8	1.25	1.18	19
Johns-Manville	35	1.20	3.4	2.00	2.48	17
Maytag	30	1.35	4.5	1.70	1.62	18
Smith Kline & French	46	2.00	4.3	3.00	2.81	15
Timken Co.	28	1.80	6.4	2.70	3.26	10

*Adjusted for companies with non-calendar fiscal year, otherwise figures are estimates.

STOCK ANALYSIS

By Heinz H. Biel



It All Takes Time

ALMOST six months have gone by since the stock market hit bottom—or at least what most market analysts believe was the bottom of this bear market. A good recovery ensued, but now some people begin to wonder whether this was not a case of too much too soon. In recent weeks the market has reflected these doubts.

It certainly cannot be denied that business statistics not only show no signs of improvement, but actually continue to deteriorate. Even if allowance is made for distortions caused by the GM strike, the industrial production index is still declining, unemployment is continuing to increase and the rate of inflation has not diminished. Neither do the leading indicators suggest a change for the better in the near future.

These are the facts, and one cannot argue with facts. Nonetheless, I believe that they should not be interpreted too negatively. While the stock market can, and usually does, reverse its direction from one day to the next, the overall economy changes far more gradually. Just remember how long it took to cool it. It would be unrealistic to expect to see statistical evidence of an upturn in business activity so soon, especially with the GM strike beginning to affect a steadily widening area of the business world. Undoubtedly, this strike is prolonging the bottoming-out period. On the other hand, it will no doubt also make the recovery that much steeper.

No Balm for the Bears

The unemployment rate will remain high, however, and it may increase still further. This is partly because the labor force is increasing at well over a million a year, not counting men released from the armed forces, but also because industry is making determined efforts to use labor more sparingly and effectively. Because of the social and political impact of unemployment, I think it is only realistic to expect the Administration, with the full cooperation of the Federal Reserve, to stimulate economic activity, the only limitation being the fear of rekindling the fires of inflation. It is for these reasons that present rather dis-

mal business statistics as well as poor corporate profits need not be viewed as bear arguments for stock prices.

In recent months many financial analysts, including myself, have looked askance at stocks which are selling at very high prices in relation to current and prospective earnings, not to mention in relation to book values. We questioned the prudence and the mathematical justification of buying stocks selling at 40 or more times earnings, equivalent to an earnings yield of 2½% or less, so long as high-grade bonds were yielding 9%. For a while it seemed that the market was beginning to share this view—the deflation of high-earnings multiples became most pronounced last August when most of the super-blue chips made their lows. That was about ten weeks after the averages had made theirs.

The Super Blues

Yet which stocks enjoyed the best recovery and are once again selling not very much below their all-time highs? The super-blue chips, of course. These are the companies which for all intents and purposes seem immune to conditions of business in general; whose earnings keep rising come hell or high water; and where labor almost invariably is a cost factor of relatively minor importance. These are the Rolls Royces of the stock market. They are anything but cheap, but they do lend prestige to any investment portfolio. If you can afford the very best, you just don't quibble about price.

However, while stocks like Johnson & Johnson, Avon or International Flavors will probably continue to sell at prices which, mathematically, are too high, the analysts' warnings against very high-multiple stocks were more than justified where the element of superior quality was lacking. *Fairchild Camera*, for instance, sold above 100 last year and at 96 this year, notwithstanding the absence of any worthwhile earnings since 1966. *University Computing*, another nightmarish case, did report earnings—but were they real earnings? These are prime examples of the difference between investments and speculations which in any bull market tends to be overlooked but is being felt with agonizing pain in the subsequent correction.



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Two years ago, when Procter & Gamble was forced by court order to divest itself of *Clorox Co.*, investors were not sure about the viability and prospects of this orphaned subsidiary. Although a leader in its field, this was basically a one-product company with rather limited resources. For a while the skeptics seemed to be right because earnings were flat. For the past six months, however, Clorox has been able to report impressive gains. The company has made a number of acquisitions which have lifted sales above the \$100-million mark, and if profits for the September quarter (50 cents a share vs. 41 cents a year ago) are indicative, results for the fiscal year ending June 30, 1971 should easily reach a new peak, possibly above \$1.75 a share.

Obviously enjoying its independence, Clorox seems destined to become a growth company in the basically stable and non-cyclical household products field. The stock has performed well during this year's market upheaval and is selling at its best price (28) in two years. Taking all factors into consideration, an earnings multiple of around 16 is reasonable. The stock should appeal to growth-minded investors.

A Strong Position

While mobile homes may be an acceptable, though perhaps temporary, stopgap, the shortage of housing apparently is still getting worse. A favorable development is the increasing flow of money into savings institutions, and if long-term interest rates should ease further, as many economists expect for next year, there should be an adequate supply of mortgage funds available at more tolerable rates. Thus we have the basis for a significant increase in residential construction, although I would hesitate to talk about an impending building boom.

Being a cyclical industry, almost all stocks have a distinct speculative tinge, and the stocks which have strong growth characteristics, like Georgia-Pacific and Weyerhaeuser, are not exactly on the bargain counter. As a compromise I incline towards *Johns-Manville* (35). The company has an ultra-conservative capitalization—no debt and no preferred stock. Prior to this year of reckoning, J-M was criticized for not leveraging the capital structure and thereby maximizing its assets potential. But what was considered stodgy then, now enhances the stock's investment standing. Although this year's profits may barely reach \$2 a share (vs. a record \$2.48 in 1969), J-M is in a strong position to capitalize on an improvement of the building industry. ■

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TECHNICIAN'S PERSPECTIVE

By John W. Schulz



Why I Couldn't Get Bearish Last Month

GLOOM was spreading through the stock market again last month. There was a striking inclination among investors almost everywhere to ignore what was potentially constructive in the future and to focus predominantly on what was, or seemed to be, negative in the present.

Not surprisingly in this sort of climate, many were wondering whether the bear market might not be about to resume. Technically-minded bears insisted that the June-October recovery was but a super-rally in a bear market that still had to carry the Dow to levels substantially under the May panic lows, while fundamentally-oriented bears were concerned about a return to tight money and/or about a failure of the economy to stage a decent recovery next year.

A Moderate Upturn

My own view of business prospects sides with those who envisage a moderately vigorous 1971 business upturn whose timing will largely depend on when the General Motors strike ends, but which, given this year's revival of money growth and the Administration's espousal of a supportive fiscal policy, could gain momentum as it unfolds. It's probably not unduly naive to give some weight to the statement made last month by Dr. Paul McCracken, chairman of the President's Council of Economic Advisers, that the gross national product will have to grow 6% a year on average for the following two years if the jobless rate is to be pushed back to a 4% "full employment" level.

After allowance for rising prices, attainment of this goal, which seems to be taking on "party line" overtones, would call for GNP dollar growth at annual rates of 8%-10%, gains that in the past would have been described as a boom. Shade these projections to eliminate whatever component of political oratory they might include, and you can still argue that monetary and fiscal policies will be aiming for a respectable business recovery and a resulting uptrend in corporate profits which the recent average stock price level almost surely was underdiscounting by a good margin.

Mr. Schulz is a partner in the New York Stock Exchange firm of Abraham & Co.

In any case, if that's the broad thrust of Administration and Federal Reserve Board strategy, one would logically look for official "signals" designed to bolster confidence, especially on the consumer sector. One such signal logically should come some time this month, because, following the election, it would then appear to be politically "untainted" and thus carry greater credibility. This would be a cut in the Federal Reserve's discount rate. With demand for short-term credit unmistakably sluggish, a discount rate reduction could soon be followed by another cut in the prime interest rate currently charged by commercial banks, which might before too long once again be beating the bushes for corporate borrowers.

The Fed could, moreover, be expected to aim for annual money growth nearer 6% than the relatively modest average of barely over 4% annually for the first ten months of 1970. It could also channel still more lendable funds into the banking system by removing the ceiling on interest rates banks can pay for large-denomination certificates of deposit regardless of the date of maturity.

The net result of any or all such moves should be to re-encourage short-term borrowing by business and thus to stem the hitherto rising tide of demand for long-term credit in the bond market; bond prices could then rally, and long-term bond yields recede, which in turn would be helpful for common stock prices. All these are trends I would expect to begin materializing before yearend, and I think they should encourage investors to anticipate the end of the General Motors strike and the emergence of a visible economic recovery.

Mild and Limited

In a more technical perspective, I can see no convincing reason for abandoning the view that the bear market ended last May with the Dow near 630. At that time, a portfolio consisting of one share each of all common stocks listed on the New York Stock Exchange would have been worth less than half its peak bull-market value late in 1968. Even if you allow for substantial overvaluation two years ago, this biggest-in-a-generation drop

almost certainly overcompensated for the slowdown in business and the contraction in corporate earnings. From this viewpoint alone, the bear market ought to be over. And if the bear market is over, the reaction following the first big recovery from the May-panic lows to the October highs should be relatively mild and limited, especially if the recovery made no great dent in the presumably huge volume of buying power investors accumulated through heavy prior liquidation and subsequent cash hoarding.

It seems most significant, in this connection, that round-lot customers on the NYSE sold more stock, on balance, during the first six weeks of the post-panic recovery than they bought on balance during the next 12 weeks. Similarly, preliminary indications are that the mutual funds' collective third-quarter net purchases for portfolio accounts not only were almost negligible, but involved less money than their second-quarter net sales, even though throughout this six-month period new cash continued to pile up from net sales of mutual fund stock to the public. Private investors, meanwhile, continued to amass liquid savings in thrift institutions at an extraordinarily great rate after spending no less extraordinary sums to buy newly issued long-term corporate bonds.

Oversold

In short, there seems to be no evidence whatever that the steep June-October recovery in stock prices—roughly 25% in all major price averages, whether weighted or not—left the market in a seriously vulnerable, overbought technical position. On the contrary, indications are that the stock market late last month was still far more nearly oversold than overbought.

The same conclusion could be drawn from the statistics for odd-lot customers' dealings on the NYSE. Throughout the market's recovery since last May there was a decided trend toward more odd-lot net selling as prices rose. This relationship between odd-lot and price behavior can, broadly speaking, be interpreted as tending to retard the development of a critically overbought technical situation in the stock market at large. But perhaps more important, odd-lot net selling continued with exceptional persistence last month while prices fell, suggesting, in my opinion, that the market's overall technical structure was too strong to warrant expectations of further prolonged and severe price weakness. In other words, I regard the retreat from last month's highs as part of a broadening long-term base structure that should soon be complete. ■

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THE MARKET OUTLOOK

By Sidney B. Lurie



No One Rings A Bell

IT'S ALWAYS easy to accent the negatives when the market is in the process of rebuilding its internal defenses. But no one rings a bell when it's time to buy or to sell, and I believe each of the obvious negatives has subtle compensations. In other words, it seems to me that emphasis on the market's debits basically revolves around an attempt to rationalize a price decline that was in the main dictated by internal considerations. My appraisal of the stock market's balance sheet indicates that the assets are greater than the liabilities.

For example, granted that the demand for funds is so large that interest rates will remain historically high, one significant fact remains: The liquidity crisis as such is over and industry's internal financial health has been much improved. With the 5% annual rate of growth in the nation's money supply neither the excuse nor the cause of price inflation when industry is operating at 75% of capacity, I do not foresee a change in the Federal Reserve Board's expansionary credit policies.

In a similar vein of thought, I suspect the special attention being given the changes in the consumer price index overlooks two significant considerations: a) The rate of change has decreased in each of the past two quarters, whereas it increased in the second half of 1969; b) basic commodity prices have been in a down-trend for the past six months, which means lower raw material prices for industry and eventually lower consumer prices as well. Thus, I continue to believe a slower rate of price increase is in prospect.

Improving Productivity

I also continue to believe that industry's profits can show surprising resiliency given an increase in the volume of business. Labor costs per unit of output have risen only 1% since the turn of the year—have been nearly stationary in the last three months—whereas they climbed sharply in 1968 and 1969. This significant statistic reflects a number of factors, particularly improving productivity.

Lastly, and perhaps most important

Mr. Lurie is a partner in the New York Stock Exchange firm of Josephthal & Co.

of all, I see no reason at this time to change my view that the economy is in the early stages of a slow upturn. While consumers have been cautious spenders up to now, the latest Sindlinger survey indicates that consumer pessimism about the outlook bottomed in July. And past experience points to an acceleration of spending three to six months after such a turnabout.

Meanwhile, emphasis on temporary overall uncertainties can obscure one underlying fact: The stock market consists of thousands of different companies, many of which have their own private cycles of behavior. In other words, market trends consist of the action and interaction of a wide number of groups of stocks rather than one single entity. Consequently, capital can flow to the new stock candidates for investor attention which develop in a recuperating economy.

Attractive Speculation

Illustrative of the point, I believe *Cutler-Hammer* (around 24, paying \$1.20) is an attractive speculation. Its Airborne Instruments Laboratory division is a pioneer in air-traffic-control systems, and while volume declined from \$99 million in 1967 to \$71 million last year (out of a \$227-million corporate total), it has now turned the corner. Secondly, although about 40% of the company's sales are to the Government, practically none of this business is related to the war in Vietnam as such, which means an easing of budgetary pressures will result in increased spending for electronic reconnaissance and strategic countermeasure systems, etc. Thirdly, with about 40% of the company's power distribution and control equipment business going to industrial customers, *Cutler-Hammer* naturally would benefit from the coming upturn in the economy. I believe this year's earnings will be in the \$2 per share area as against \$1.90 in 1969, \$1.60 in 1968, and I see further improvement in 1971.

Speaking of another Milwaukee company, it seems to me that *Allis-Chalmers*, under 15, is in a bottoming-out area. The pertinent considerations as I understand them are as follows: 1) This year's sales and profits should slightly exceed the \$805 million and

\$1.51 respectively reported for 1969. 2) With incoming orders strong and the backlog substantially higher than a year ago, the 1971 outlook points to a respectable gain in earnings. 3) Part of the expected improvement reflects the prospects of better results in the construction machinery division, which this year has had a manufacturing problem due to a major plant rearrangement. Part also reflects the fact that the consolidation period following the new management which has been introduced in the past two years is just about over. Naturally, there are some remaining problems, such as the fact that working capital position is tight, pension costs heavy, etc. But the risks seem recognized at going prices and there is an internal potential for change.

Some New Pluses

I also see new reason for an interest in *Universal Leaf Tobacco* (recently at around 30, paying \$1.50) with earnings of \$3.05 per share in the fiscal year which ended June 30. There are some unappreciated pluses to the company's basic business: 1) Profits are related to commissions and the physical volume of tobacco processed for the cigarette manufacturers, rather than to tobacco prices. 2) While U.S. cigarette consumption has been flat in the past few years, worldwide growth is in the order of 5% annually. As a result, the company's international business from its plants outside of this country represented 32% of last fiscal year's profits as against 22% in 1968. Equally important, the basic strengths of this little-known company now have the speculative appeal of a venture into the modular housing business, a venture which should contribute some \$15 million of volume in the 1970-71 fiscal year. And all the start-up costs now are past history. While the capitalization is thin this could be a new plus for Universal.

Although both the market and the economy might be said to be in need of a new psychological stimulant, two reassuring considerations are worth noting: 1) Unlike the situation during the summer months, the question today is not whether the 1969-70 decline is over, but when the next major upswing will begin. 2) The internal market evidence suggests that this is a period of hesitation rather than the beginnings of a major setback. While a more prolonged period of what Wall Street calls base building may be required, the key consideration to me is that an entirely new list of candidates for investment attention is in the process of developing. This new list could include a number of heretofore lag-group groups. ■

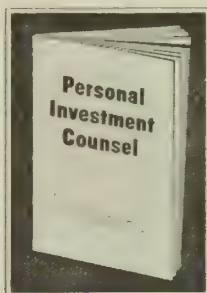
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STOCK TRENDS

By Myron Simons



Four Sad Syndromes

IN THE AFTERMATH of a bear market, it's easy to lose sight of the fact that the stock market has, for almost 30 years, been the most easily available and one of the best places to make money—outside of one's own business. Wall Street, with the nearsightedness that comes after a long decline, has made its new heroes the technicians who advised short sales and the economists who predicted worse and worse things to come. But let's keep things in perspective. Over the long run the bulls, not the bears, have been the real heroes. Since the early 1940s, the market has gone up and up; bear markets have been only temporary aberrations. And many large fortunes were created on the *long* side, by people who bought shares of growing companies and stayed with them—the Polaroids, the Xeroxs, the IBMs and many others of worth.

The Wrong Choice

The real problems left behind by bear markets are not the paper losses in soundly selected stocks—history tells us that they get made up. The real problems are those that arise from plain bad judgment. For example:

The Intuition Syndrome. This is the conviction that one's ability for feeling out a good situation is so phenomenal that one doesn't have to use his other senses, or even his brain. We saw a lot of this type toward the end of the bull market.

The Waiting Syndrome is another. A stock was bought with a certain objective in mind. But when it reaches that price, the buyer decides he'll give it a little more time to go even higher. Not for any good reason, but just because it acts so well. Even after it breaks, he still keeps looking for a miraculous upward move. This syndrome is famous for turning good profits into horrendous losses.

The Killer Syndrome. This one is out for the big winner. And the buyer is willing to take chances to make it. The only trouble is that he hasn't limited himself to only one or two wild speculations. When the break comes, instead of making a killing, he gets killed.

The Hoarder Syndrome. This type

accumulates stocks and doesn't look at them again—until it's a little too late because the fundamentals have considerably changed.

If you recognize yourself as having some of these symptoms, don't quit. Just face facts. Many professionals, including me, have made these mistakes a number of times.

The point is that they are all errors of slipshod judgment. People who pinch pennies in their own businesses will go into the stock market and commit fortunes on just a ridiculous whim or even a tip.

The market in the long run is built on reason, even though there are temporary crazy moments; there's no great genius required, no esoteric knowledge. What is necessary is to pick securities appropriate for your objectives—sound, slow, but steady ones if you are a conservative investor, and rapid growing ones if you're more willing to take risks. But they must be thought about, standards and objectives set, and then, they have to be *watched*. "Put them away and forget them" is a piece of advice that went out of style long, long ago.

A few antidotes for these syndromes are:

Know what you're trying to accomplish, and how it can happen. If you choose a stock that's depressed because of market conditions, or because of a slowdown in its rate of growth that's only temporary, you're probably on a safe track. Take *Pitney-Bowes* (28), the leader in post age-metering; its growth has been slow but steady. Because of its pre dominance in its field, it usually commands a high price/earnings multiple—at some time in every year of the 1960s it sold at 26 times its earnings; and often much higher. Its lower price/earnings multiple of the decade was 18 times in 1965.

No Miracles

Its earnings for 1970 could reach \$1.35 a share, up from \$1.29 a year, and 1971 could show a further improvement—perhaps to the \$1.50 level. There seems to be nothing unreasonable about the hope that the stock could push into the middle 30s. But don't expect miracles; for Pitney-Bowes to go to the 50s would require

Mr. Simons is a partner with the NYSE firm of F.I. duPont, Glore Forgan & Co.

either more rapid growth than now appears on the horizon, or a great bull market, or perhaps both.

Understand your risks. When you are buying a stock because of developments that *may* occur, don't forget to look at what it will be worth if the events *don't* happen. Those who bought some of the conglomerates at the height of their excitement back in 1969 had to assume that many of them would continue to make wonderful acquisitions using inflated stock, or warrants, or bonds that were piled on to an already top-heavy debt structure. There were too many things that could go wrong (and ultimately *did*) to warrant the risk. But now the prices of some of them are so far down that they are reasonable based on the companies' internal growth potentials, even without further acquisition.

Northwest Industries (17), which is experiencing a sharp turnaround from last year's deficit operations, is expected to make over \$2 a share this year. The stock sells at only a little over eight times anticipated earnings. Should it accomplish its objective to sell its railroad subsidiary to its employees, it could have a large tax credit and be relieved of a highly cyclical operation. It might then be possible for both earnings and the stock's price/earnings multiple to go up simultaneously.

Time To Switch

Review your portfolio constantly. Stocks are usually bought for a reason; and when there's a change, the stock should be sold and a new one bought. There's always plenty to choose from.

The lull after the first sharp recovery from a bear market—the present stage of the stock market—is usually an excellent time to buy, and to make switches in your portfolio. Exciting new things are happening in the economy; there is probably a housing boom in the making, and companies like *Sherwin-Williams*, *ITT* (through its *Levitt* division) and *Boise Cascade* should be able to take advantage of it. The consumer has been spending far less than his income, a situation which generally is short-lived. A wave of new buying should help retailers, as well as such companies as *Bell & Howell* and *Interco*, the largest shoe manufacturer in the U.S. It's a time for planning and action, and, above all, for taking advantage of the illogic of the recent bear market. But use your intelligence and common sense to the fullest extent. After all, if you expect to make money in the stock market, or anywhere else for that matter, that's the least you can do. ■



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October 27, 1970

C. A. MEHOS, Vice President and Treasurer

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The Funds

The Chow Mein Fund

WHY SHOULD Jenò Paulucci, an immigrant Italian's son, who made over \$100 million creating and selling companies like Chun King to corporate giants like Reynolds Tobacco, buy a tiny mutual fund called First Sierra Fund?

To ask such a question is not to know Jenò Paulucci, who works as hard as he plays (*see picture*). If he has an Italian background, he has an American view toward money: The more you have, the more you have to make. Paulucci started out worrying about how to manage his own huge fortune and ended up deciding to go into the money-management business.

Such an unconventional boss couldn't have a conventional fund president either, and he doesn't. Thirty-three-year-old Orville Weiszhaar has enough hair over his ears to be nicknamed Samson. Orvie spends his spare time working with a West Coast ghetto organization called The Switchboard. It is a kind of hotline where troubled people can telephone anonymously for information on how to kick a drug habit, say, or get out of trouble with the law. Weiszhaar sits on this hotline at night himself. "This kind of work is more important," says Weiszhaar, "than what I do in the daytime."

Weiszhaar feels what he learns on the hotline makes him a better money manager. After all, you don't manage money in a vacuum.

Such has been Weiszhaar's whole approach to his career. Instead of taking the business school route, he became a professional student, took chemistry, engineering, accounting, law and a year of medical school on the theory that a deeper understanding of various disciplines would help him more than "an MBA's overview of a smattering of each field."

How did he get mixed up with Jenò? "It was unbearably hot in Minneapolis. I had taken a job with a large, well-known company, but I was sticky and tired. I needed a vacation in a cooler spot at someone else's expense. I saw an ad by Paulucci inviting people up to Duluth for job interviews at Chun King, so I went. To my surprise, I took a job on his legal staff."

Orvie eventually wound up with overall charge of investing Paulucci's fortune properly, including some put in various mutual funds. Then Jenò sold Chun King to Reynolds for \$63.4 million in cash.

"It was a terrible problem," says Weiszhaar. "We had to do something with all that money, so I called on the best brains on Wall Street. But when I met them, I figured our best decision would be to own our own money-management company to be run 100% for the benefit of Jenò Paulucci."

In Sierra, Orvie bought a fine record and the team that made it. Sierra Fund ranked A in up markets and B in down markets in the last FORBES Mutual Fund Survey. The fund, formerly a specialist in



Jenò Paulucci

insurance stocks, now has only 25% of its portfolio in insurance stocks.

Some \$8 million of Paulucci's money, the most conservative part, now is in Sierra in addition to \$14 million of other people's money. The rest of his millions is managed with different goals, taking chances that probably would not be proper for a conservative fund.

Of course, Jenò Paulucci is a great marketing man, and Sierra reflects it. Says Orvie: "I feel an element of any success we have will depend on selling the fund properly. You can have conservative goals as we will have and still push. Most of the trouble with the go-go funds over the last three years is that they were not sold properly. Investors did not understand what they were buying."

What is Weiszhaar buying now? Social responsibility stocks? Not at all. "Fortunately our insurance stocks held up while basic industry stocks fell to what I believe are ridiculously low bargain levels. So we switched, buying things like TWA, Chrysler, Litton, Teledyne."

What about social stocks, pollution and all? "The other kind of stock, like crime detection and pollution control will benefit, but right now everyone sees that and they may be overpriced. After all, it's not what you buy, but the price you pay for it."

Now do you see why Jenò Paulucci and Orville Weiszhaar hit it off so well? ■

Weiszhaar of First Sierra Fund



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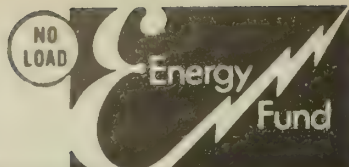
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READERS SAY

(Continued from page 13)

SIR: Lead has long been recognized as an air pollutant. [Research] has isolated emissions from leaded gasoline as by far the principal contributor of such pollutants to the atmosphere.

I would also like to comment on your sentence, "But if a bit different and better antipolluting device on which the lead in gasoline has no effect is around the corner. . . ." Of course there are devices now which can function with leaded gasoline. However, because of the extremely high temperatures involved and the need, therefore, to use highly expensive metal components, this is not considered a solution by the motor car companies. In fact, there is general agreement among them that the goals of the Clean Air Act cannot be reached with leaded gasoline.

—R.C. GLOGAU
President,
Engelhard Industries
Newark, N.J.

SIR: One of the most deceptive things the lead interests have been saying is that there is 6% less efficiency and 6% greater use of gas if you take the lead out. Everyone else figures 1 cent per gallon at the refinery or 2 cents per gallon at the pump to cover extra refining to give an equal octane of unleaded gasoline. Because of the 3% higher BTU content of unleaded gasoline, this gives a saving of a minimum of 1.2 cents per gallon because of better mileage. Thus you have either a greater efficiency or use less gasoline.

—B.L. WILLIAMS
Manager, Communications
Universal Oil Products Co.
Des Plaines, Ill.

SIR: Who told you that smaller engines pour out less emissions? This ain't necessarily so. Extensive tests have shown that larger engines, lightly loaded, will produce less oxides of nitrogen than smaller engines more heavily loaded by the same vehicle. What really counts is the weight of the vehicle. What's in order are lightweight cars with few power consuming accessories and driven by an efficient engine of generous displacement (but also of light weight).

—LLOYD E. JOHNSON
Assistant Director of Research,
Caterpillar Tractor Co.
Technical Center
Peoria, Ill.

SIR: . . . promote actively the broader use of the motorcycle as personal transportation. I can't help wondering if Mr. Forbes ever rides his to the office.

—HENRY A. INTO
Rocky Hill, Conn.

Sometimes, Your suggested solution to the problem sure appeals to Forbes Inc.'s subsidiary, the cycle retailers Slegers-Forbes in Whippany, N.J.—MF.

Just Equality

SIR: Your editorial (*Fact & Comment*, Oct. 15) pointed out in glowing terms the supposed effectiveness of the Italian woman's life in opposition to the American woman's request for equality, under law. Isn't it time that everyone stopped all this pretense on the proper and improper behavior of the "fair" sex? The laws which deny women equality in working conditions, in ownership, in governing their own lives are wrong. The constitution guarantees equal treatment and opportunity to everyone.

—A.J. RABINE
Hackensack, N.J.

SIR: Apparently in Italy only women who are mothers of males have any status. I believe that women should be more than mere bearers of males.

—MARY F. WILK
(Mother of three—one male)
Santa Barbara, Calif.

SIR: Your editorial precisely pinpoints why Women's Lib.

—M.M. DUNNE
Wichita, Kan.

SIR: Italy is certainly an unusual choice of country to cite when discussing social progress. May we count on you to give us, as our next treat, some examples and guidelines on economic progress derived from the experiences of Saudi Arabia?

—EVELYN KONRAD
New York, N.Y.

AEP and Contract Coal

SIR: In your Oct. 15 issue, Mr. Martin Sosnoff referred to current conditions of supply in the coal market as follows: "Donald Cook of American Electric Power can scream about coal prices all he wants, but the prices aren't going to come down. In fact, they are going up and up. Where was he when the coal operators crawled into his office on their knees and begged for long-term contracts rather than the spot business given them?"

The American Electric Power System pioneered the long-term coal contract, including appropriate provisions to escalate prices, to ensure adequate supplies of fuel for steam-electric generating plants. The fact is that the American Electric Power System, which currently burns approximately 25 million tons of coal a year, has long-term coal contracts for the supply of virtually all of such coal other than the coal produced for its own use in its own mines.

The reason that the stock of coal on the AEP System has recently substantially declined is not that we had not contracted for an adequate supply of coal; rather, it is because the coal companies, parties to the contracts, have defaulted and failed to supply the quantities which they had agreed to supply.

—DONALD C. COOK
President,
American Electric Power Co.
New York, N.Y.

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THOUGHTS... ON THE BUSINESS OF LIFE

Concentrate your energies and work hard. Launch out in new experiments. Never be afraid to have the courage of your opinions. Fix the lines you want to travel along and keep on them. That's all. —A. C. W. HARMSWORTH

It is by work that man carves his way to that measure of power which will fit him for his destiny. —JOSIAH G. HOLLAND

Find a purpose in life so big it will challenge every capacity to be at your best. —DAVID O. MCKAY

Few things are brought to a successful issue by impetuous desire, but most by calm and prudent forethought. —THUCYDIDES

I never remember feeling tired by work, though idleness exhausts me completely. —A. CONAN DOYLE

It is impossible to enjoy idling thoroughly unless one has plenty of work to do. —JEROME K. JEROME

What men want is not talent; it is purpose; in other words, not the power to achieve, but the will to labor. —EDWARD BULWER-LYTTON

The great achievements have always been individualistic. Indeed, any original achievement implies separation from the majority. Though society may honor achievement, it can never produce it. —GEORGE CLEVELAND ROUTE

There is a perennial nobleness and even sacredness in work. —THOMAS CARLISLE

The rung of a ladder was never meant to rest upon, but only to hold a man's foot long enough to enable him to put the other somewhat higher. —THOMAS HUXLEY

Genius is one per cent inspiration and ninety-nine per cent perspiration. —THOMAS A. EDISON

B. C. FORBES

The only caste recognized in America is not blood, but brains. The prizes in this country are open to all. The outlet for ability is never closed. The ladder is never overcrowded at the top. Success is mainly a matter of, first, work; second, work; third, work—with, of course, a plentiful mixture of brains, foresight and imagination. Remember that genius is most times the fruit of hard work—well-directed and long-visioned work.

Merit, God knows, is very little rewarded. —CHARLES LAMB

Why is one man richer than another? Because he is more industrious, more persevering and more sagacious. —JOHN RUSKIN

Ability is a poor man's wealth. —MATTHEW WREN

Successful men do the best they can with conditions as they find them and seldom wait for a better turn. —WILLIAM FEATHER

Nothing will ever be attempted if all possible objections must be first overcome. —SAMUEL JOHNSON

Even if you're on the right track, you'll get run over if you just sit there. —WILL ROGERS

Luck is an accident that happens to the competent. —ALBERT M. GREENFIELD

It never occurs to fools that merit and good fortune are closely united. —GOETHE

I believe that one of the characteristics of the human race—possibly the one that is primarily responsible for its course of evolution—is that it has grown by creatively responding to failure. —GLEN T. SEABORG

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A Text...

Sent in by Jack Williams, Waycross, Ga. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

Thrust in thy sickle, and reap: for the time is come for thee to reap; for the harvest of the earth is ripe.

—REVELATION 14:15

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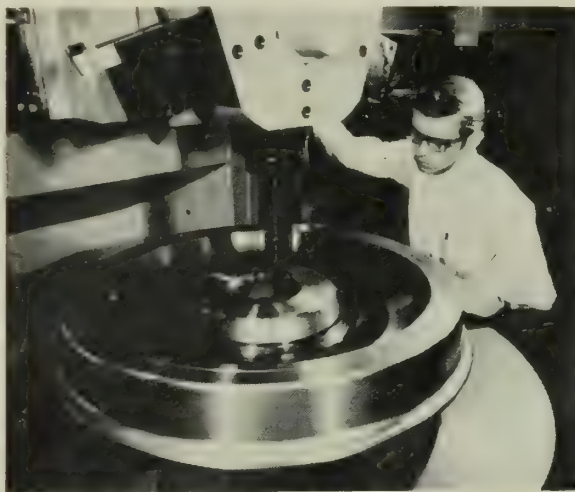


NO INSTANT HEAVEN

Even Nature takes time — patient time —
to nurture anything worth growing.
Only weeds grow overnight.

Success in anything worth-while cannot be *ordered* by law; it has to be *earned*, by long, hard, intelligent work. Stature cannot be reached by demand; it has to be deserved. Equality can only come from *being* equal; try to seize it and you seize empty air. Acceptance comes from being acceptable. Respect results from being respectable.

All honorable people want all these things for all decent humans. But when you try to speed up Nature by forcing plants too fast, they die.



Numerically controlled vertical boring mill—product of Warner & Swasey's G. A. Gray Division—machining large steel wheels.



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Left Car	Parts	Labor	Right Car	Parts	Labor
Replace rear bumper, lower valance, back bars, filler panel	\$ 64.65	\$ 14.00	Replace front bumper, lower valance, back bars, filler panel	\$ 76.00	\$ 24.50
Repair rear body panel and lock support, straighten		7.00	Replace grille assembly and necessary parts	32.05	2.80
Repair quarter panel outer L, straighten		24.50	Repair hood, replace molding and lock panel	14.20	9.10
Repair deck lid, straighten		35.00	Repair radiator core support, straighten		7.00
Replace tail lamp lens (3)	15.90	3.50	Repair and align front fenders		14.00
Paint as necessary	9.00	31.50	Replace headlights and molding	8.50	5.60
SUBTOTALS	\$ 89.55	\$115.50	Paint as necessary	5.00	17.50
TOTAL		\$205.05	SUBTOTALS	\$135.75	\$ 80.50
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Wouldn't it be better if the other guy's bumper lines up with your bumper—instead of with your headlights or trunk?

And wouldn't it be better if bumpers could take bumps? Today's bumpers can't. Instead of absorbing the jolt, they just pass it on back to the auto body.

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A bumper that can survive even a 5 mph front and rear test barrier crash without damage could save American drivers up to \$1 billion a year.

That's the fastest way we know to cut insurance

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When they change the bumper, we cut collision insurance rates 20%.

Allstate is offering to give a 20% discount on collision insurance for any car the manufacturer certifies, through independent tests, can take a five-mile-an-hour crash into a test barrier (front and rear) without sustaining damage.

There are no makes or models of automobile that qualify today. But there are experimental bumpers that do the job. They've been tested and they work.

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Allstate Insurance Companies, Northbrook, Ill. In a few states where rates are standard, discounts cannot apply. However, use of shock-absorbing bumpers could lower standard rates.

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I want new cars to have bumpers that can take bumps—and bumper heights that match. The sooner the better. I support your efforts to get cost-saving bumper standards.

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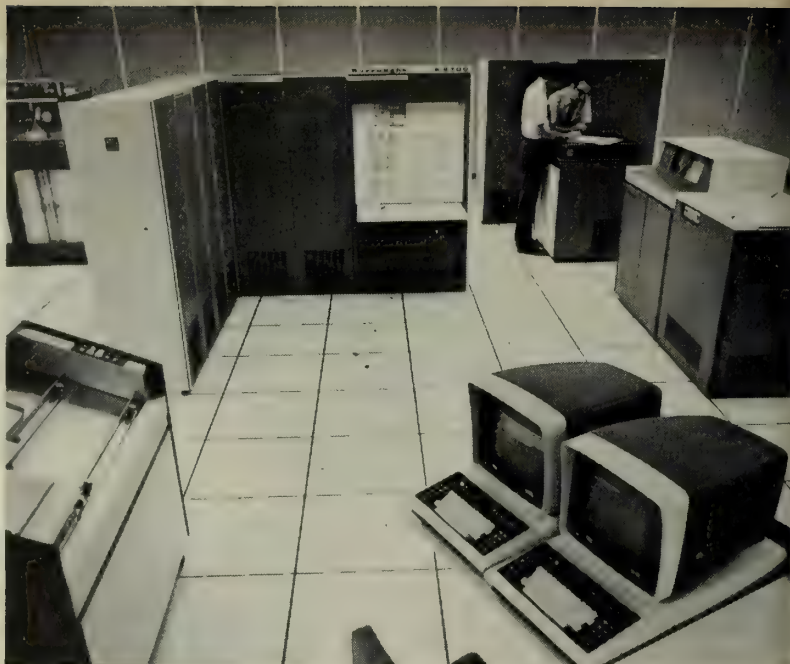
COVER PHOTO COMPOSITE: Ralph Breswitz

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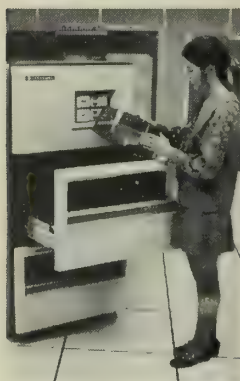




B 7700 Design Test Model



B 6700



Disk-Pack Drive Memory



B 5700



Disk File Memory Banks

Burroughs announces the 700 SYSTEMS

It's a whole new family of advanced computers, each designed to do today's job and grow to handle a heavier, more complex work load in the years ahead. The first three 700 Systems include the B 7700, the B 6700 and the B 5700.

The B 7700. A very large, versatile, parallel processing computer with up to *eight* processors, plus massive core and high speed disk memories. It works on many programs internally while, at the same time, it operates a data network stretching to thousands of outlying terminals and devices for data collection and inquiry.

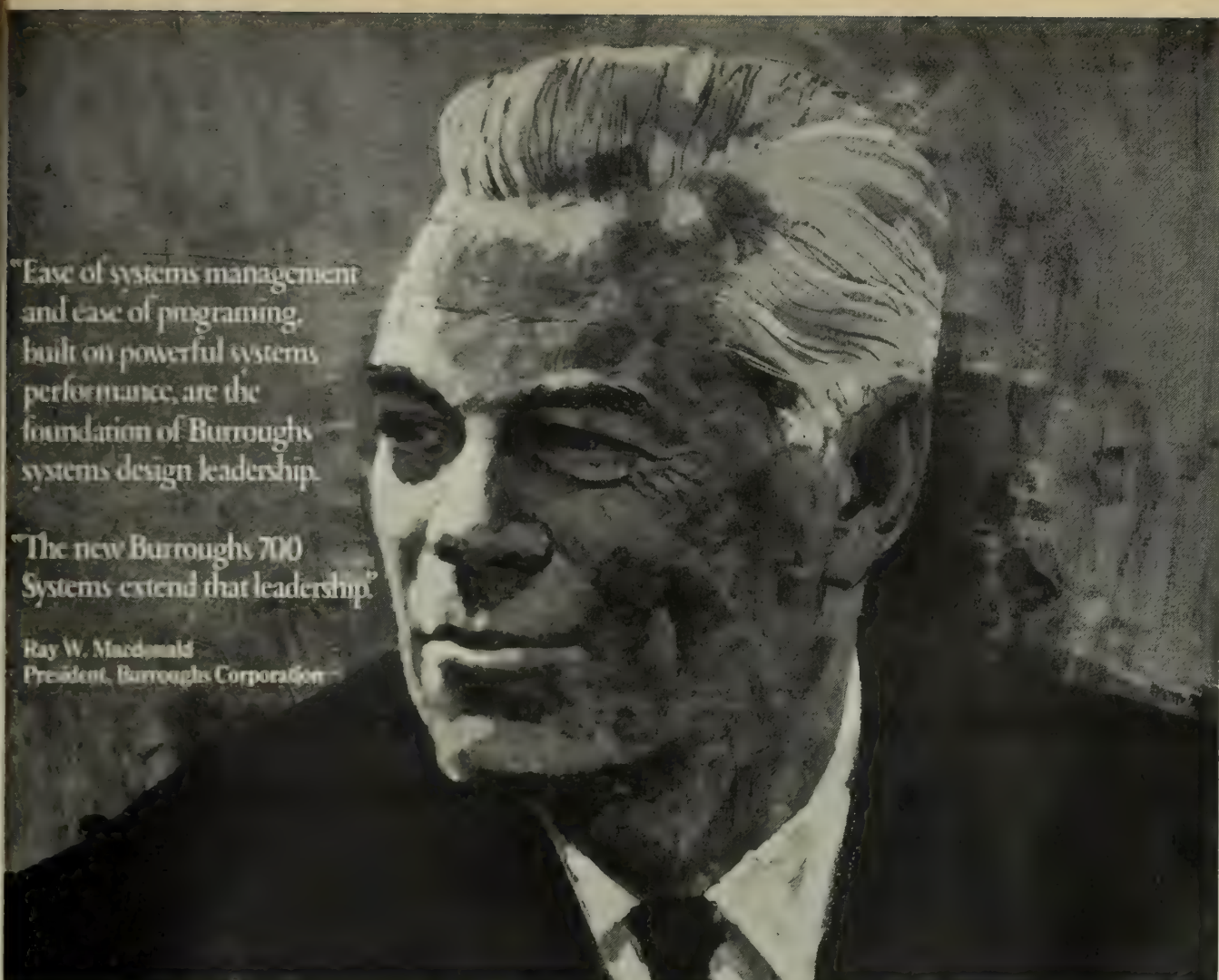
The B 7700 offers "fail-soft" reliability for heavy data base management and data communications applications . . . the kinds of applications that characterize EDP planning in business, industry and government.

The B 7700, functioning now as a design test model, can be expanded from basic to maximum configurations at any time without reprogramming.

The B 6700. A large-scale multiprocessing system, *ready now*, offering exceptional power and flexibility. The B 6700 can have up to three central processors and three input/output processors. Plus, up to 12 data communications processors that can service a 3,000-line network.

Main memory exceeds 6 million bytes, while on-line random storage goes up to better than 80 billion bytes.

"Fail-soft" design, expandability without reprogramming, and ease of systems management help make the B 6700 the most advanced business data processing system currently available for service.



"Ease of systems management and ease of programing, built on powerful systems performance, are the foundation of Burroughs systems design leadership."

"The new Burroughs 700 Systems extend that leadership."

Ray W. Macdonald
President, Burroughs Corporation

NEW...for today and through the 1970's!

The B 5700. A one- or two-processor, intermediate size system for economical, productive data communications and batch processing. In delivery status now. The B 5700 is expandable without reprograming and features automatic multiprograming operation, dynamic resource allocation, and many capabilities of larger 700 Systems.

Advanced Features. All three 700 Systems come with programmer-independent virtual memory, compiler-language programing, Master Control Program supervision and other "years ahead" advantages already benefitting Burroughs systems users.

New Disk Storage. B 6700 and B 7700 systems are offered with Burroughs new disk-pack storage and a new high speed "Optimized Access Memory Bank".

Systems Design Leadership. Burroughs new 700 Systems emphasize productivity combined with ease of programing and systems manageability . . . economical expansion without reprograming for systems in each performance range . . . and, most important, exceptional responsiveness to management.

These new 700 Systems reflect Burroughs policy of continually improving products through creative engineering. At Burroughs, technological progress goes hand in hand with an appreciation of how data processing systems can help management get the job done best and at the lowest true cost.

Burroughs





Man of War Cove in the foreground with Smuggler's Bay at left. Hidden Bay at right. Part of the more than seven miles of wide and deep ocean-going waterways in Port Royal.

"I'D ABOUT GIVEN UP ON FLORIDA... UNTIL I FINALLY FOUND THIS PLACE!"

A well-known New York businessman is quoted. He says further: "I had searched the east coast from Hobe Sound to Key West. I was looking for some fairly uncluttered stretches of white sand, and a lot of unpopulated salt water. I wanted no apartment house living, with neighbors in my lap, tourists in my hair, or 'high rise' apartments as a view. Someone suggested Naples on the west coast. And it was there I found Port Royal."

When Port Royal was first conceived twenty years ago, its planning was based, not on potential profits, but on making it the finest place to live in the United States.

That is why there can never be another Port Royal or a development of like character and values. Today's economy forbids.

Port Royal comprises over 95% of the southernmost two square miles of Naples and embraces seven miles of tropically landscaped winding streets and wide and deep waterways. The Gulf of Mexico on the west—the Bay of Naples (Intracoastal Waterway) on the east—and the ocean-going waterways of Port Royal in between provide excellent boating and fishing.

Speculators in real estate are not accepted. Only one residential property is sold to any purchaser.

Port Royal today is a community of over three hundred property owners representing a total investment by owners of over twenty million dollars, and the developer's goal to achieve a truly fine, amply protected place for congenial people to live has been realized. All properties are one-half acre or more. Prices start at \$30,000, properties on ocean-going water start at \$40,000. **NO BUILDING DATE IS REQUIRED WHEN BUYING PROPERTY. FOUR YEAR TERMS AT 6% INTEREST.** (We do not sell completed houses—real estate only).

All property sales are made only in Naples, Florida, direct to the purchaser by the Port Royal office—no real estate agents. And no sales to persons other than those who have

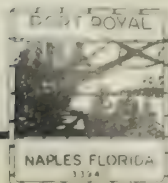
been accepted for membership in the Port Royal Beach Club by the membership committee.

Every home in Port Royal must be designed by an approved architect. Minimum size of residence is not less than 1,750 square feet of living area, exclusive of garage and open porches. No duplication of the same plan is permitted. (Port Royal is the only area in Naples, and one of the few in the United States, that requires an excellent architect to design every home.)

A Distinguished Community with twenty-five vital protections written in every deed. A tour of Port Royal will be a delightful experience—especially for those who have almost despaired of finding areas in the United States that protect the residents from neighbors who are not compatible; commercial enterprises; unsightly architecture and apartment houses. When its remaining homesites have been sold—and that time approaches—Port Royal goes into history as an example of waterside developments, notable for both physical beauty and values that shall endure.

About the Port Royal Beach Club: Property owners in Port Royal are the only people eligible for membership. This is Naples' finest private club. Owned and operated by the members; it is located on over 400 feet of the white powder-sand beach of the Gulf of Mexico. The A.A.U. sized swimming pool, putting green, croquet court, tennis courts, lounge, card rooms, lockers, and superb dining facilities are maintained all year—not just during the season. The formal dining room is the center of many social activities.

A REMINDER to write PORT ROYAL, Dept. C-1, 100 Kings' Town Drive, Naples, Florida 33940, for a presentation in color of that which has been called "the finest place in America for a home." (There will be no follow-up to this offer unless requested.)



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Side Lines

A Touch of "Rose Marie"

WHILE FORBES was digging into the cover story for this issue, our subject, Canada, exploded into the news with the political kidnappings in Montreal. In considering these sensational events, the editors of FORBES came to this conclusion: The terrorism was a side issue, not the main issue, which is the steady growth of Canadian nationalism and its implications for U.S. investment. But partly because of the furor over the Montreal terrorism, FORBES' Arthur Jones had problems interviewing Canadian Prime Minister Pierre-Elliott Trudeau; by the time Jones buttonholed Trudeau in a House of Commons corridor, the events in Quebec had temporarily pushed economic nationalism out of the headlines.

Ed Gorn, Canadian Vice Consul in New York, was a bit alarmed when he learned that FORBES was putting a Mountie on the cover. He groaned: "You've just undone ten years' hard work. That's exactly the image of Canada we've been trying to get rid of." We assured him we knew Canada had shed the Rose Marie-I-Love-You image; that's why we were doing the story.

In working on the story, however, Chief Researcher Sharon Schlein had some adventures reminiscent of Rose Marie. They befell her on a trip to desolate, remote Newfoundland to interview Provincial Premier Joseph Smallwood. Let Sharon tell it:

"Newfoundland is a seven-hour flight in a prop plane, not the fastest way to travel 1,100 miles, but as the Air Canada reservation clerk told me, 'Not too many people want to go there in winter.'"

"We didn't run into trouble at Boston or St. John, New Brunswick or Halifax, Nova Scotia. It just got colder at each stop. It was nearly midnight when the pilot announced that we would land in St. Johns, Newfoundland in 15 minutes. Three-quarters of an hour later the pilot announced that ground visibility was zero. We would go on another few hundred miles to Gander. We circled the Gander airport. Finally we were on the ground in Gander, the old transatlantic terminal in prejet days. In a blinding snowstorm, of course. A bus was brought to the air terminal at 3 a.m. for the six-hour drive to the St. Johns airport. Then, a taxi ride into town, with gale winds blowing the taxi off the road.

"I was 12 hours late for my appointment with the Premier and somewhat the worse for wear. But he didn't mind: Being 12 hours late isn't unusual in Newfoundland."

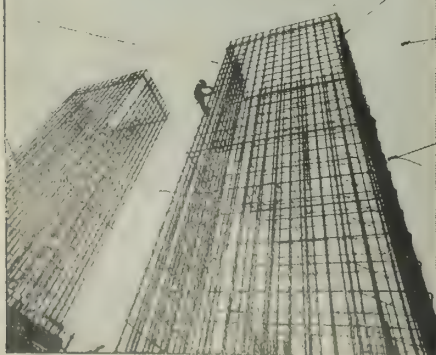
What our reporters found starts on page 22. The article warns Americans to expect problems with our investments in Canada, and urges patience and understanding as the best ways to deal with them. ■



Nelson Eddy and Jeannette MacDonald in "Rose Marie"

The sky is falling in the Middle South.

We're moving heaven and earth for industrial complexes and skyscrapers scattered throughout Arkansas, Louisiana and Mississippi. New manufacturing plants are locating in the Middle South in increasing numbers and existing plants are expanding their manufacturing facilities—diversified industry from nuclear to nautical, from petrochemical to pharmaceutical. This is what's happening all over the place. The sky's the limit. Get a piece of it. Write: Middle South, Box 61000, New Orleans, La. 70160



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Trends & Tangents

FOREIGN

Banking Department

Because people run out of cash when they shop, a London banker has put his banks where they shop. London & County Securities now has established branches in half-a-dozen London department stores, keeping store hours instead of bankers' hours six days a week. At the moment, the store branches handle only deposits and withdrawals. Is the next step a loan department right next to better dresses?

Protein from Petroleum

The first commercial plant to produce protein from yeast cultured on petroleum is being built in France by a subsidiary of Foster Wheeler Corp. Though the plant's output will for the present be used only in animal feeds, within ten years such concentrates should be suitable for human consumption. Heavy petroleum distillates are regarded as the most economical raw material to provide the hydrocarbon source needed for growing yeast.

BUSINESS

Too Hot To Handle?

Detroit's "muscle cars"—the ones named for mountain cats, birds, horses and the like—are recognized not only as high performers but also as bad insurance risks. A recent study of 400,000 cars over a three-year period showed that muscle buggies incurred insurance losses 56% higher than standard-powered vehicles, with collision claims averaging \$497, some \$165 over the standard cars. Comprehensive claims were 117% higher, averaging \$200 to standards' \$92. As a result, many insurance companies have filed for special rate increases on hot cars. Surcharges of 15% to 20% of premium costs are in effect in over half the states for 1970 models, and more will adopt them for 1971 autos.

Warm Up

Life in the cold, impersonal cities of America could take on a warmer glow with the introduction of a new colored cement by General Port-

land Cement Co. The first tan cement whose color is derived from the manufacturing process rather than from added pigments, it is uniform and nonfading. Probable uses: large public buildings, office complexes, even lively new superhighways. Now that a tan color is possible, could there someday be a fuchsia skyscraper? It's unlikely, since there's no interest at the moment in even developing the necessary technology. It seems there's no demand.

Move Over, Boss

The ranks of women workers in the U.S., 32 million strong and restless, are growing at a rate four times as fast as the male work force. Only 18.3%, however, hold managerial, professional and technical positions, with a tiny elite at the top. The rest work for paychecks only 58% as large as that of the median male worker's (it was 64% in 1955) and have a relatively smaller chance for advancement. Recently, over 200 men and women in management gathered to discuss ways to help more women through the milk to the cream at the top. The only people missing were the chief executive officers.

(Continued on page 72)

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READERS SAY

Alphabet Soup

SIR: Mr. Hooper wrote well in his Nov. 1 column about companies that have been changing meaningful names to letter names that mean nothing. I agree with him that corporations are out-alphabetizing the Roosevelt-era government, but the soup is not all sour. In some cases there might be some sense and value in a change. I will offer ours as a possibility.

We used to be known as Continental National American, three words that became cumbersome in many ways. Our marketplace—insurance brokers, and other professional insurance buyers—began to refer to us as CNA. In time, we began to do the same, and a few years back we formalized something that had become a widespread practice. I suppose you would agree that not all letter names are inherently bad. I would propose that 3M, AMF, AVCO, CBS, INA, IBM, MGM and RCA are among those who have made a successful transition, at least as far as identity is concerned.

—ARTHUR R. ROALMAN
Vice President,
CNA Financial Corp.
Chicago, Ill.

The Good Lord Determines When

SIR: The article on retirement in *FORBES* (Oct. 15) is right on the button. I took early retirement in 1968, partly because of poor health and partly to take advantage of my company's offer to those 60 years of age with over 30 years' service. I envisaged myself fishing and enjoying a life of leisure. Needless to say, after about eight months, this sort of thing began to pall on me and now I do little besides trying to keep the yard tidy and attending to the details of everyday living. I think in the case of most of *FORBES* readers, William Randolph Hearst's saying is applicable: "The time to retire is when the Lord retires you and not before."

—B.T. FREURE
DeBary, Fla.

Banishing the Monster

SIR: Your information about the tremendous sale of the monster shoes (*FORBES*, Oct. 15) must be a lot different from ours. We work in a very large company with a female majority, and you know what? With the exception of relatively few of the very young and the usually grotesquely got-up far-out ladies, the monster shoes were not very much in evidence, and at this time seem to have disappeared from the fashion scene. In case you have doubts about this statement, just station anyone at, say, the Rockefeller Center subway station [in New York] between 8 a.m. and 9 a.m. and take a census.

—LORLE LIEBMAN
New York, N.Y.

(Continued on page 73)

Investigate our liquid assets over lunch.

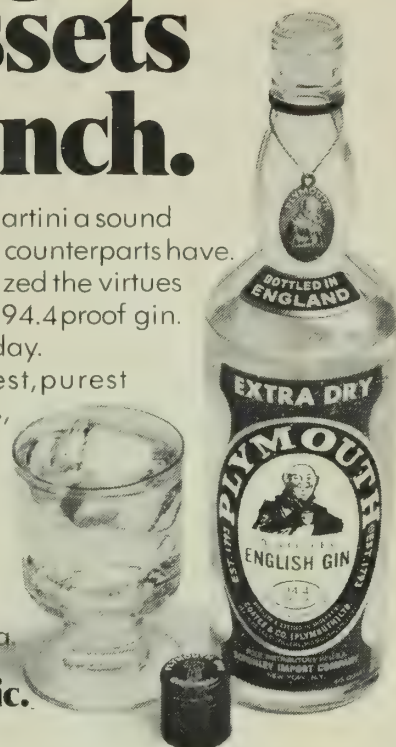
You'll find the Plymouth martini a sound investment. Just as your English counterparts have. Since 1793, the British have realized the virtues of Coates & Co.'s crisp, extra-dry 94.4 proof gin.

Things are no different today.

We still distill with the softest, purest water. And prized botanicals, ordered from different sources to preserve our secret recipe.

Discover what made Plymouth the official gin of the British Admiralty. Order a Plymouth martini. A capital idea.

Plymouth Gin goes public.



94.4 Proof. 100 % Grain Neutral Spirits, Schenley Imports Co., N.Y., N.Y. ©1970

What's Chromalloy American doing in Mexico?

Manufacturing ethical drugs including vitamins and antibiotics. Ronti de Mexico S.A., a recent addition to the Chromalloy's growing Pharmaceutical Group is located in Mexico City manufactures and markets a broad line of pharmaceuticals to doctors, hospitals and the Mexican government. Right now, Ronti is working on an important arthritic cardiovascular drug. The product is undergoing human clinical trials and Ronti hopes to register it for sale early in 1971. Ronti de Mexico S.A., a new member of the Chromalloy family working to make things better for you! South of the border.



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Fact and Comment

THE ELECTIONS—JUST PASSED AND NEXT

Sometimes—not all the time, mind you—readers of *FORBES* say it more effectively than ye editor—for instance, this letter which follows. It highlights something that was an important factor in the elections last month and which gives unfortunate promise of being *the* issue in an election of some importance 24 months hence.

"I was laid off at Boeing the 1st of September, 1969 after almost 17 years in the aircraft industry. I have no retirement built up except savings. We sold our home in June and have been living off of our equity ever since. We may be able to survive another 8 months. Since I am highly specialized and heavily oriented toward defense products, I have NO HOPE of work in engineering for a minimum of two more years, *if ever again*, since I am 55 and have no degree. I can't reduce my

cash losses by buying food stamps because I'm 'too rich.' The only way I can get help is to go broke. I am not bitter at Boeing, because they were mousetrapped. I *am* bitter at an Administration whose 'solution' to the problems of inflation is to force people out of employment. I guess our ready, willing and able-to-work minorities have been bitter over this for a long time.

Very truly yours,
VELLAR C. PLANTZ"

Can the Administration stem or reduce unemployment to negligible proportions?
Without rekindling a disastrous inflation rate?
For the answers to this continuous, cliff-hanging serial, "The Perils of the Presidency," stay tuned in.

IMPOSSIBLE—UNDESIRABLE

Not all pipe dreams emanate from potheads. Some otherwise sagacious heads, including the Head of this country and the head of this country's Department of Defense, keep talking about doing away with the draft and having an all-volunteer armed forces. Granted, the advocacy of this impossibility usually waxes warmer before elections. But I'm beginning to think that the President really means to try to try it.

There seems little likelihood that our three Services can fulfill their functions with much less than 3 million warm bodies. At any time, and certainly given the present climate among youth, can anyone imagine that number of *volunteers* for the Services? The most optimistic estimates indicate that less than half of the present moderate number of volunteers would have volunteered if they hadn't felt a draft on their necks.

Raise the pay so it can compete with 37-hour weeks and skill-pay scales that prevail in private industry? The printing presses couldn't run fast enough to print greenies enough to do that. Shorten the work week? So who'll be

available to do the soldiering the other 131 hours a week?

And if an entirely volunteer army were feasible and affordable—which it is not—would it even be desirable?

No—not when it involves the near-3 million men needed. As I wrote here more than six years ago,

"In a purely voluntary service you get two types for the most part—the best and the worst.

Fortunately, the greatest percentage of career men in the officer echelon and among all ranks are those motivated by a combination of such things as the particular appeal of the service or branch, the responsibilities involved, patriotism, a daily knowledge of the essentialness of their work, the unique camaraderie of career servicemen, etc.

At the opposite end of the scale are many of those thinking of 'escape' from empty or unhappy civilian circumstances, those to whom no other job is open, etc."

Despite the understandable protests of the young, there's not a thing wrong with a fair draft whereby all 19-year-

olds except the literally disabled are subject to the luck of the draw. Twenty-four months of physical training and a bit of discipline in the service of one's country is not really an outrageous demand. Being a citizen of the strongest free nation in the world entails some responsibility. Some of those who shout loudest against the draft and about personal freedom don't realize that without armed forces this land and the rest of the world would have no freedoms at all.

NOTES ON THE PARIS AUTOMOBILE SHOW

The Paris Automobile Show has long been the biggest in the world. Acres of space are also devoted to such related auto activities as repair shop accoutrements; service station hardware; carwashing machinery and accessories; trucks, buses, ambulances and most every conceivable type of four-wheeled vehicle.

Most European motorcycles and the ubiquitous Japanese models are on hand, and there are probably more plain bicycles—and not such plain ones—on display than anything else. In Europe, bicycles are an essential form of economical transportation, as anyone who has tried to motor through Amsterdam and other European capitals well knows. While in the U.S. it may be primarily a kid's thing (*see p. 60*), in Europe cycling is a major sport.

Yes, there are also automobiles at the Paris Show, with most interest and excitement centered on the smallest and newest versions by Citroën, Peugeot, etc.

I remember in the late Twenties and Thirties the enor-

It's a happy irony that President Nixon, so pooh-poohed and booed at by all the anti-Pentagonians, has cut military spending proportionately more than any President since the immediate after-war years. But I don't think he can do the impossible of bringing about all-volunteer Armed Services.

And if he could do that impossible, it wouldn't even be a good thing for the country as long as we need so many in arms.

mous excitement that our own Grand Central Palace Automobile Shows generated. In postwar years though, the majors each started to do their own. General Motors achieved glamorous heights at Waldorf Astoria unveilings, with trim sex-appealing new models draped by trim sex-appealing fashion models, the whole accompanied by musical extravaganzas that made the old Ziegfeld Follies look positively dowdy.

That sort of thing is now largely gone here.

The Paris Show was jammed, and the products continue to be the principal thing that people come to see.

The customers provide the fashion show. It was interesting to note that in this capital of fashion, while more midis were noticeable, they were still conspicuous because there are relatively few adorning the ladies of France. While the damned midi may have rolled back—or should I say rolled down—the mini, the principal beneficiary there, here and everywhere seems to be the pants suit.

THE PRICE OF SUCCESS

Pinning the tail on the donkey is a party game for kids. Pinning a suit on IBM has become a popular game for adults.

But, would you believe it, in the last two weeks no new suits have been filed against the Mother Computer.

At least that we know of.

SELF-SERVING OBSERVATION

We are completing now the first year of *FORBES* Magazine's weekly Restaurant Guide. If you ever have occasion to eat out much in New York, or entertain, or be entertained occasionally in the Big City, you'll find this Restaurant Guide most valuable—as much for the places it keeps you out of as for the ones it steers you into. For the whole forthcoming 52 issues of 1971, the price is con-

siderably less than the cost of one bad meal for two.

End of commercial.

Now, do you suppose this will be considered an editorial or an advertisement?

I won't be too upset whichever way you take it, 'cause I think we're performing a real service—and having a fat good time doing it.

PRESIDENTIAL LETTER

Recently I attended an autograph auction that included a number of Presidential letters. A letter I bid unsuccessfully for contained one of those deeply philosophical, penetratingly profound observations for which our decisively incisive thirtieth President, Calvin Coolidge, was famous.

Wrote this original Mr. Cool (if I were prone to puns, I'd spell it Cool-idge): "If my saying that the best thing students can do is to work hard and improve themselves has been of any help to you, I am glad I thought to say it."

I can never be reminded of this Man Who Got the White House Rocker Going without being reminded of the immortal question asked by Dorothy Parker when she was told Mr. Coolidge had died—"How could they tell?"

THE ULTIMATE IN SEDATIVES

At the first hello, the man who made it telling you how.

—MALCOLM S. FORBES,
Editor-in-Chief



Continental Mark III.

Because there has to be something better.

In this world, there are those who demand something beyond conventional standards of luxury.

That's why there are the Continentals.

Automatic temperature control holds interior climate to within a degree or two, regardless of the weather. Standard, too, are Michelin steel-belted radial-ply tires and a full complement of power features. Sure-Track, the computer controlled anti-skid braking system, is

standard on Mark III, optional on Lincoln Continental.

At trade-in, a Continental can prove to be a clever investment. In fact, based on recent NADA average wholesale prices, Continental Mark III returns more of its original manufacturer's suggested price resulting in the highest resale value of any luxury car built in America.

Your first drive will convince you: the Continentals are cars apart and above. At the top of the class.

The Continentals: the final step up.



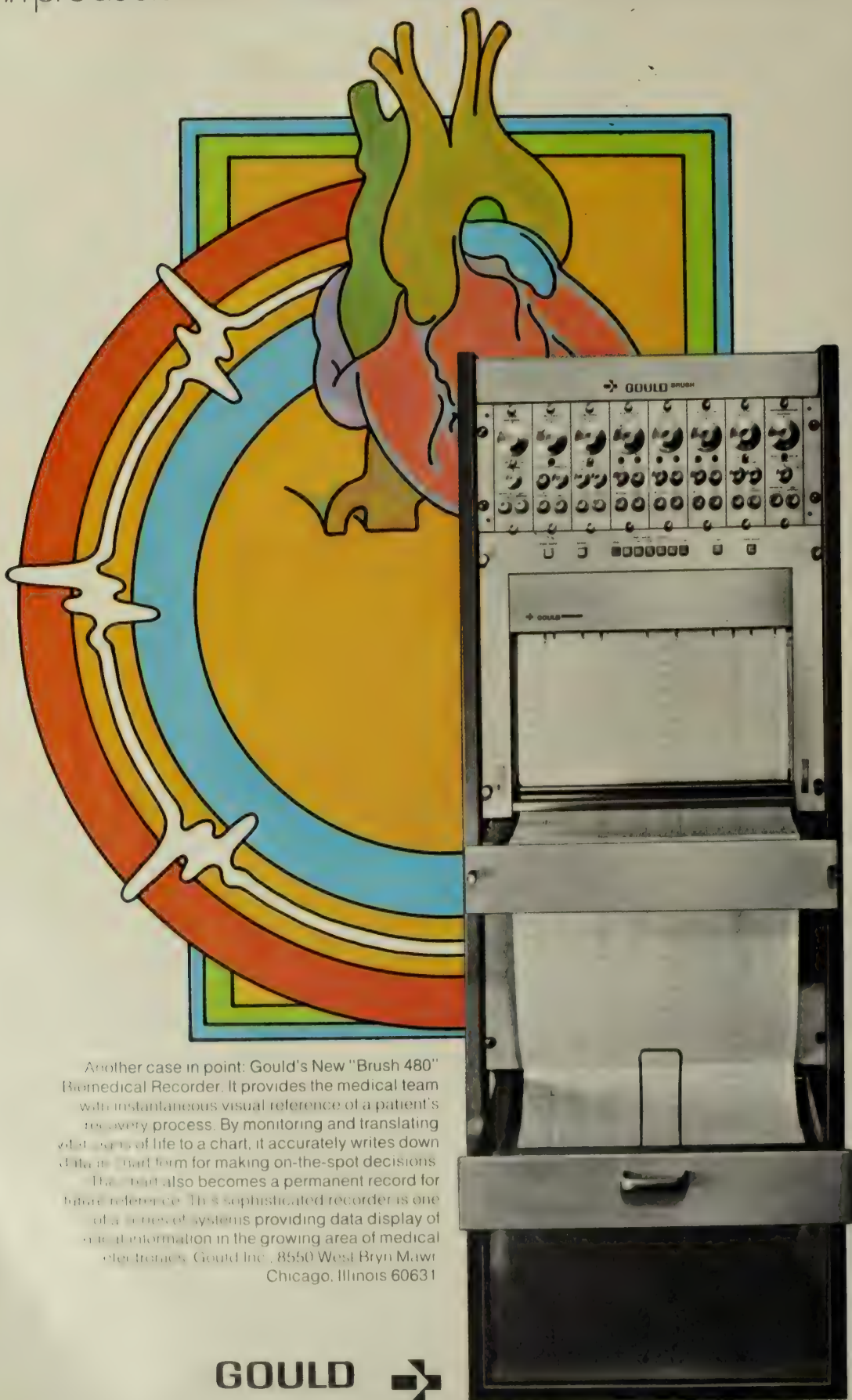
THE CONTINENTALS

LINCOLN-MERCURY DIVISION



The Lincoln Continental.

It all adds up. Electronics. Electrochemistry. Electromechanics. Metallurgy. Four technologies converging to build leadership positions in products and markets. That's what Gould is all about.



Another case in point: Gould's New "Brush 480" Biomedical Recorder. It provides the medical team with instantaneous visual reference of a patient's recovery process. By monitoring and translating vital signs of life to a chart, it accurately writes down data in chart form for making on-the-spot decisions.

The chart also becomes a permanent record for future reference. This sophisticated recorder is one of a series of systems providing data display of vital information in the growing area of medical electronics. Gould Inc., 8550 West Bryn Mawr, Chicago, Illinois 60631

GOULD 



Too Far, Too Fast

High-flying University Computing is coming back to earth, but it may well make a safe landing, not a crash.

THERE IS NOTHING more dangerous than success, because—as a great historian once noted—it is rare indeed to find a man who can, in the full flush of success, recognize its natural limits.

In his 13th-floor office overlooking the Dallas skyline (above), Sam Wyly must be thinking about such things these days. Scarcely a year ago, everything was roses for the young (36) chairman of University Computing Co. Today he is deeply troubled. His original success was soundly based. Wyly's problem was that he tried to push it too far, too fast.

Starting with little more than a hefty dose of old-fashioned entrepreneurial spirit, Sam and his brother Charles—older by just one year—established UCC in 1963 with a timely idea: to do businessmen's computer work for them more efficiently and cheaply than they could do it for themselves. In 1964 UCC had under \$1 million in revenues; this year it may do more than \$140 million. UCC became one of the hottest stocks on the Big Board.

Smart and charming Sam Wyly is a slightly built man with a shock of blond hair and fashionably mod clothes. He must have felt that nothing could stop or even slow his drive to the top ranks of American business. Sons of a struggling Louisiana weekly

newspaper owner, Sam and Charles had started early in the computer business, both as IBM salesmen.

Sam, the younger, more articulate brother, graduated with Charles from Louisiana Polytechnic Institute, won a scholarship to the University of Michigan business school, and after sales success with IBM and Honeywell, struck out on his own in 1963 at age 28. "I figured that if I could put Honeywell in the computer business in Texas, I could put myself," he says.

On Their Way

So Sam traded computer time with Southern Methodist University for housing a second-hand computer financed with \$1,000. Charles came over from IBM sales, and a concept company was born. It would serve computer-users like a utility with time-sharing, software, a data network. Dallas customers like Sun Oil and Texas Instruments liked the two brothers. Wall Street caught a fever for University Computing and pushed its 4.6 million shares as high as 187 before it went on the Big Board in 1969. Total market value at that time: almost \$1 billion.

With their high-priced stock, the Wylys tried in 1968—unsuccessfully—to take over a much larger company,

Western Union. They successfully offered some 1.2 million shares of UCC stock to capture a prosperous casualty insurance complex, the Gulf Insurance Group. They raised \$20 million in cash when the chance came along to buy Computer Technology from LTV Aerospace when James J. Ling got in trouble.

Sam Wyly greatly admired Jimmy Ling for his freewheeling financial methods. Unlike Ling, the Wylys continued to live modestly, but, like him, they were accepted into Dallas business aristocracy. Their outside interests grew; they became major stockholders in the Bonanza Steak House chain and in Earth Resources. Sam Wyly was chief Texas fund raiser for Richard M. Nixon in 1968 and a delegate to the Republican National Convention—heady accomplishments for a man still in his mid-thirties.

That the Wyly boys' original idea was a great one can never be doubted. Nor is there any doubt but that they had, underlying everything, a fine company. But with their heads in the clouds, they failed to see the danger signs all around them: soaring interest rates; a dangerously speculative stock market; a softening of business. UCC kept borrowing and expanding at a feverish pace.



UCC Chairman Sam Wyly figures computers will come back.

The problems began to show up last January when UCC sought new financing with a \$60-million convertible debenture offering. While nominally a computer service outfit, UCC was shown by the prospectus to rely on leasing for about 25% of its business. And it had been pushing unrealized profits through its profit-and-loss statement. It had even generated income by selling computer equipment and then leasing it back. "They were just doing too many unusual things for me," says one Wall Street analyst. The offering had to be cut down to \$40 million.

Even though cynical Wall Street had long since begun to discount UCC's stock (it traded recently at 20), many investors were surprised last month when UCC reported its first loss, one of \$4.6 million for the third quarter of 1970. It probably will report another loss in the fourth quarter. Together the losses could easily wipe out first-half earnings and put UCC slightly in the red for the full year. UCC Chairman Sam Wyly

sums it up this way: "We've been clobbered in 1970."

The January prospectus had also shown that the Gulf Insurance Group had played a larger part in the total company's finances than at first supposed. UCC had been taking heavy capital gains in 1969 from Gulf's \$111-million portfolio of bonds and stocks. The capital gains, especially from Gulf's Xerox stock, proved to be a mainstay this year. Investment gains from heavy selling have totaled more than \$11 million for the first nine months. Just about all of UCC's narrow profit for the period—\$1.3 million—has come by depleting the insurance unit's portfolio.

The recently acquired Computer Technology has been another great drain in a critical time. The Wylys, who share executive officer duties at UCC, picked up 35.5% of the firm from LTV Aerospace in December 1969 and another 35.5% this October. The acquisition had many attractions. It broadened UCC's overall computer capabilities. It could produce addi-

tional per-share earnings, once consolidated. Unfortunately, Computer Technology, which was basically an in-house unit for Ling-Temco-Vought, lost \$4.6 million in the first half. Still the Wylys plowed on. But the deal was costly, requiring \$20 million in cash, a \$16-million five-year note and about \$10 million in stock. Sam Wyly says sadly, "Today, I wouldn't pay \$20 million cash for General Motors."

UCC President Charles Wyly, who also had served as UCC's treasurer, denies the third-quarter loss means the company faces a financial crisis. After all, a \$7-million reserve against possible investment and accounts receivable losses helped create the red ink. But a close look by one investment banker at the last UCC complete balance sheet, that of June 30, indicated a severe cash deficiency ahead. UCC appeared to need \$75.2 million within a year for debt service, apart from the cash needs of normal daily operations. The projected cash flow available to meet these obligations seemed to be about \$43 million. That would leave, after taxes, a cash deficiency of some \$38 million. And the company's fiscal picture has not improved in the past several months.

Sadder But Wiser

The Wylys may be down but they are a long way from out. Both brothers are devout Christian Scientists, teetotalers and nonsmokers—men who believe willpower can overcome danger or difficulty. They are trying to correct their mistakes, get back to their original sound concept. "We're more in the divestment business than the acquisition business this year," Wyly says. "We've been selling off or shutting down those things that don't fit our new strategy or have just been drags." To cut costs, they have shut down at least one of UCC's ten data-preparation centers around the country, and cut back the computer-plotter and microfilm lines and the offices of a market research subsidiary. Wyly has moved into Computer Technology, dropping a cadre of highly paid sales executives and expanding its customer list. To raise cash, Charles Wyly doesn't rule out even the sale of the Gulf Group, which also includes two life insurance companies, Gulf Atlantic and Western Security.

The Wylys are looking for an upturn in the computer service business. They are also riding a very big—and very promising—dream called Datran. This is a Washington-based subsidiary that is pushing UCC's scheme for a nationwide microwave network to handle data transmissions. Despite the opposition of AT&T and Western Union, Datran seems now to have an inside

James J. Ling gave UCC his home for \$1.5 million credit.



rack at the Federal Communications Commission. It would handle data separate from telephone lines and faster than AT&T now does. If it gets going, Wyly thinks it will help the rest of his computer business. But a decision by the FCC on the service could be a year away. Moreover, the network would be costly. UCC has been wasting around for other companies, including computer manufacturers, to help carry the eventual \$375-million cost of the network.

If the Wylys are to turn UCC around in the meantime and beat the cash squeeze, they will have to hurdle some other nagging problems. One is the appeal of a 1968 stockholder suit alleging that the Wyly brothers received an unusual bonus of 90,000 shares of Computer Leasing, a subsidiary temporarily spun off by UCC. There is another suit complaining about a \$200,000-a-month management fee, now terminated, which Computer Technology paid UCC for advice. And the company could lose perhaps as much as \$2 million on a deal with Jimmy Ling. This involves a loan to Ling that brought to a UCC subsidiary voting rights to Ling's remaining 9.5% of Ling-Temco-Vought and title to his big Dallas house. A Dallas bank is a prior lienholder and could capture \$4 million of the collateral. The \$1.5-million house has been sold to sportsman and oil heir Lamar Hunt, who intends to move there.

Despite their troubles these days, the Wylys maintain their faith in the computer business. Charles Wyly is proud he has wooed over Dean Thornton, the Boeing Co.'s former treasurer, to become UCC's new treasurer. Sam talks more to analysts than in the recent past. He flies to Washington to work as chairman of the National Advisory Council for Minority Business Enterprise. And he fondly remembers the first time he visited New York and told security analysts about his plans for international business. "The cynicism was so thick you could cut it with a knife. They said, 'We know this is some kind of Texas promoter here now.' Why, UCC already was getting \$1 million a year in revenue from Europe. And now we're in London, Paris, Vienna, Frankfurt, Munich. We offer Shell Oil the same kind of services in Holland as we do in Houston and New Orleans. . . ."

Can the brothers Wyly solve their immediate cash problems? That remains to be seen. But they have learned the truth of the old clichés about haste making waste and about nothing growing to the sky. As a result of their experience, UCC has the chance to again become one of the hottest things in the computer field. ■

Is There Method . . . ?

Why is little Continental Copper continuing to spend money in Chile, whose new government plans to nationalize the mines?

CHILE's Salvador Allende appears to mean business all right. One of his first statements on taking over as president last month was to reaffirm his intention of nationalizing Chile's basic mining businesses—nitrates, iron ore, copper. But Mortimer S. Gordon, chairman of New York's Continental Copper & Steel, says he isn't worried about it. Continental put its \$36-million Sagasca copper mine into development early this year.

Though Continental earned only \$1.7 million on \$89.2 million in sales in fiscal 1970, Gordon has committed it to spending upwards of \$10 million on Sagasca, no inconsiderable sum for a company its size. The rest will come from a consortium of Japanese mining companies (\$10 million), the World Bank (\$10 million) and Chile's Copper Corp. (\$3.5 million). Allende's socialism notwithstanding, none of Continental's partners is having any second thoughts about the project either. "We're taking Allende at his word," Gordon says. "He has said Chile would assess and evaluate each situation on its own merits. To move at this point would be completely against the interests of Chile and would elicit the animosity of groups whose help the Chileans have." In short, Gordon thinks Allende will measure a little latecomer like Continental on a different scale than he will giants like Anaconda.

For one thing, Gordon argues, it would be pointless for Chile to seize an uncompleted mine, in which it already has a 25% interest, when to do so would jeopardize the \$20-million investment needed to complete it. Then too, the output of the mine is under contract to the Japanese, and any government takeover would scuttle that agreement as well. As for Continental itself, the risks are minimal. The Agency for International Development has guaranteed Continental's investment in the project against expropriation and various other natural political disasters.

Gordon does not deny the importance of the Sagasca project to Continental. Continental has always been a marginal wire and cable manufacturer. In last year's copper shortage, it earned 77% less than it did in 1967, for instance, despite a 5.6% increase in sales. Sagasca would provide an assured source of supply—a source that would prove particularly valuable these days when Chilean copper is selling in the world market at around

50 cents a pound vs. a U.S. producers' price of 56 cents.

Which partly explains Gordon's optimism as well. Unlike many copper men, Gordon believes that the industry is currently stuck at the bottom of one of its cyclical troughs. "There was a period of nine or ten years," he says, "when the producer was king. Now the customer is king. The producer is in the position of having to look for customers, and he's going to continue to have to do so for the next five, six



or seven years. This means the Chilean government will be more dependent on the distribution system to market its copper than the Western countries will be on the producing countries for sources of supply. I'm counting on the Chileans to be motivated by their own best interests and not hamper their access to that system."

The Real Gamble

"We're not looking through rose-colored glasses," Gordon goes on. "We're realistically assessing the situation. The pricing situation will depend on the economies of the Western countries, and we see copper leveling off in the 48-49-50-cent range. So there won't be the economic pressure for Chile to nationalize."

Maybe not. But there's plenty of reason for Gordon to hope that there's not. For the fact is that, even at such prices, Sagasca will have a dramatic impact on Continental earnings when it goes into production a year from now. As against the 56 cents a share the whole company earned last year, and with not much more in prospect for 1971, Sagasca would contribute \$1 a share with copper at 42 cents a pound, \$2 a share with copper at 60 cents. Thus Gordon now finds himself in the peculiar position of gambling that the copper market will indeed prove stagnant—or stagnant enough—to discourage Chile's loudly proclaimed nationalist ambitions. ■

Billions for Defense?

Is the outlook for defense companies as bleak as it seems? Probably not.

AT THIS JUNCTURE, when defense is everywhere recognized as a depressed industry, with defense company stocks selling at eight or nine times earnings, forces in Washington and Moscow may well be turning things around. In short, the defense famine may be over—or nearly over.

A whole new catalog of strategic weapons is on the Pentagon's shopping list. The military may well get a good deal of what it wants. The newest approach to U.S. defense policy will mean increased funds for missile development, all manner of Navy-related weaponry (especially submarines), a wide variety of special-purpose aircraft—in short, a broad range of military hardware on which the great majority of the defense industry makes its living.

How can this be at a time when rebuilding U.S. cities, modernizing our transportation system, recapturing the environment, educating our children and hosts of other social and civilian programs are vying for the federal budget dollar? The answer is fairly simple: Defense Secretary Melvin R. Laird's department is determined to hold on to the level of funding it has currently, just under \$70 billion a year. But it intends to cut sharply the manpower levels of the armed forces, from some 3 million men at present to just over 2 million.

As savings are achieved in payroll

and related costs (which now comprise about half of the total defense budget), more money may be available for strategic weapons. The proposed manpower savings are of such a magnitude that inflation will not consume all of them. "Cut manpower and you cut big chunks out of that budget, so there is room for hardware," a staff aide of the House Armed Services Committee says bluntly.

In the military-spending bill recently voted by the House of Representatives for the current fiscal year, weapons procurement is allocated \$16.2 billion. This is about the level that was spent for procurement in 1964, before Vietnam was escalated. But inflation in the U.S. economy means that \$16 billion buys less—perhaps 30% less—today than six years ago. Defense Department Controller Robert C. Moot recently estimated that today's defense dollars for non-Vietnam purposes are equivalent in buying power to 1950-51 spending, which was low indeed. "In 1950-51, the balance of power in the world was significantly different than today," Moot argued.

It is a theme constantly expounded by Defense officials from Secretary Laird down. The argument goes that the Soviet Union has been spending proportionately more on defense than the U.S. While the U.S. has been tied down in Vietnam, the Russians have made great strides in missiles, in



The Success That Kills

The charter airlines are the hottest thing in air travel—so hot that they may never recover from their success.

WHEN A GROUP of companies has grown the way the supplemental airlines have, these 12 companies should be flying high instead of facing disaster. The industry was created in 1962 when Congress granted certificates to the old nonscheduled airlines to fly international charters. Since then their air carrier revenues have soared 400%, to \$375 million last year. But last year they lost a total of \$7.7 million, and a further \$9.5 million in 1970's first half. In a group of companies whose largest carrier, World Airways, had only \$87.7 million revenues in 1969 from its airline operations, obviously no company has the reserve strength to hold out for very long.

The trouble was that the supple-

mental carriers created competitors as well as passengers. The regular airlines watched the steady growth of reduced-fare charters, then rushed to the fray. The battle has been joined primarily over the North Atlantic, where the supplementals get nearly two-thirds of their passenger business and where last year they carried 24.2% of the passengers flying U.S. carriers vs. only 3.7% in 1963. Fares have steadily fallen. Today the once-profitable North Atlantic is a sea of red ink for the supplementals and perhaps for scheduled U.S. flag carriers Pan Am and TWA.

The six supplementals who fly the North Atlantic—American Flyers, Capitol International, Overseas

National, Saturn, Trans International and World—together lost \$7.5 million in 1970's first half. Pan Am and TWA, who will not discuss 1970's North Atlantic earnings, are probably not much better off.

"Everybody is losing money," says Edward J. Driscoll, president of the National Air Carriers Association (NACA), the organization of the ten largest supplementals. "Both sides underpriced their product," agrees James E. Landry, general counsel of the Air Transport Association (ATA), the organization of U.S. scheduled airlines. For the supplementals, the low prices on commercial charters are aggravated by the decline of their military charter business, which amounted to 79% of 1963 revenues but only 47% of last year's.

Having managed the notable feat of cutthroat competition in a regulated industry, both sides have turned to the regulators for relief. The sup-

building their navy—particularly the missile-armed submarine fleet—and in exerting their power in such new areas as the Mediterranean Sea and the Indian Ocean. Against this there is Congress' recent disapproval of Pentagon wastefulness and national revulsion over Vietnam.

The first priority for Laird and other top defense officials is to try and halt the decline in Pentagon budgets. The House this year cut another \$2 billion from a military spending request of \$68.7 billion, itself down from the \$72.6 billion appropriated in the last fiscal year.

The most likely shape of U.S. defense policy is a return to what it was in the 1950s. This was before the Kennedy Administration's Defense Secretary Robert S. McNamara built up conventional forces so the U.S. could combat local "wars of liberation." One result of that policy was Vietnam. It is now a discredited policy. Under President Nixon, the emphasis is returning to moving pieces of military hardware around in a continual chess game with the Russians.

Another indication of greater reliance on weaponry rather than the commitment of manpower is the Nixon doctrine that U.S. allies will have to shoulder more of the burden of their own defense.

There is growing pressure in Congress for the U.S. to pull its 300,000 troops out of the NATO countries, to be replaced by troops of those countries. The U.S. obligation will be to supply those armies, and to rush into battle if they are attacked. In Asia, similarly, the U.S. is pulling troops

out not only from Vietnam but from Thailand and Korea as well. Supplying hardware for the defense of these areas will demand that new, advanced weapons be developed. For NATO, says T. Edward Braswell, Chief of Staff of the Senate Armed Services Committee, "We're talking tanks, more tactical fighters and anti-aircraft equipment," such as ground-to-air missiles and advanced radars. New hardware is needed not only for strategic reasons, but to enable the U.S. to retain its \$3-billion military export market.

To back the pledge to defend countries from afar, the U.S. will have to keep the sea lanes open. Thus the concern over the Soviet Union's increasingly far-ranging 80-vessel nuclear submarine fleet. The U.S. has 88 nuclear subs, 31 of which are scheduled for conversion to multiwarhead Poseidon missiles. But the Russians are building ten new nuclear submarines a year and have the capacity to build double that number.

In the Air, Under the Sea

Where Robert McNamara tried to build one fighter plane for both Navy and Air Force, it is now certain that the Navy will get Grumman's F-14 and the Air Force will get McDonnell Douglas' F-15. Even the controversial B-1 bomber, on which North American Rockwell has the R&D contract, stands at least a chance of being built in today's climate.

The Russians' new capability to launch missiles from submarines makes it increasingly likely that development will go forward on an advanced Underwater Launched Missile

System, having a range far beyond normal submarine capabilities. Developing ULMS will call upon the skills of a missile manufacturer and a shipbuilder, especially one with a knowledge of undersea technology. Lockheed's success with the Poseidon program could give it an edge. The controversial antiballistic missile program could be scrapped if the Strategic Arms Limitation Talks are successful, but upgrading the defense of present Minuteman sites might call for some new small missiles and volumes of low-cost radars.

The final word, of course, rests with Congress—and with public opinion. The results of the recent election are debatable, but the Pentagon may have gained a friend or two and lost a couple of critics in the Senate. Critics of the Pentagon, of course, will not be silent. House Appropriations Committee Chairman George H. Mahon, a Texas Democrat, found that three services were each asking for a different weapon to accomplish precisely the same purpose. He sent them back to think it over.

In addition, there are a good many sincere Americans who feel that the military is exaggerating the Soviet threat to pressure Congress and public opinion into buying more weapons.

But the argument for a modern military posture by the U.S. is strong too, and when the arguments are balanced out, the Pentagon is almost certain to end with quite a few new billions for new hardware in the fiscal 1973 budget. If the defense industry isn't likely to boom in the years just ahead, neither is it going to starve. ■

plementals have proposed broadening the charter rules to make it easier for more people to fly reduced-fare charters. They argue that his proposal will appeal to people who have never flown—not to those who now fly scheduled service.

The ATA, speaking for the regular airlines, disagrees, arguing that more charter traffic will be at the expense of scheduled, ticketed traffic, with a resulting erosion of scheduled service. The ATA is plugging for higher fares and stricter enforcement of existing charter rules.

NACA's Driscoll warns that Congress and the CAB had better shake a leg: "Unless they take some positive action, they may see the demise of the supplemental carriers." Only the top eight listed in the table had over \$14 million in 1969 revenues. Already some of the smaller, less viable carriers are facing bankruptcy. One, Standard Airways, closed shop last

year. As a result, mergers of smaller with larger supplementals are in the wind. Universal, for instance, is now acquiring American Flyers. And more will have to come.

As the 1962 granting of their charters suggests, the supplemental air-

lines have powerful friends in Congress, friends who are unlikely to leave the field to the scheduled airlines with their higher fares. Nevertheless, when the dust has settled there will probably be fewer supplementals and higher fares. ■

Supplemental Airlines

	AIR OPERATIONS		Net Income		Recent Stock Price	Price Range 1969-70
	Revenues 1969 (Millions)	Gain From 1968	1969	1968		
Am Flyers Airline	\$20.8	52%	\$d6.3	\$d3.2	"	—
Capitol Intl Airways	48.1	8	d0.1	d3.5	3 1/8	34 1/2-2 1/2
Modern Air Transpt	14.1	23	d1.8	d2.4	"	—
Overseas Natl Airways	58.7	95	d0.7	3.3	3 3/4	46 3/4-2
Saturn Airways	27.0	-18	0.04	3.7	5 5/8	29 7/8-2 7/8
Trans Intl Airlines	51.1	5	4.0	6.5	"	—
Universal Airlines	46.1	1	d3.2	2.9	5 1/8	22 1/2-4 1/4
World Airways	87.7	4	4.7†	7.5†	5 7/8	30 5/8-5

d—Deficit. *Wholly owned subsidiary. †Excludes \$4.4 million in 1968 and \$4.5 million in 1969 from bank subsidiary's earnings.

Canada's Closing "Open Door"

"Yankee, go South"? Canadians aren't saying that yet, but there are clear signs that the open door to U.S. investment is going to be closed a little—at least a little—and perhaps a lot.

"BOMBS don't scare us," David Rockefeller, president of Chase Manhattan Bank told Quebeckers not long ago, "we have bombs in New York City too." More scary by far to U.S. investors, said Rockefeller, are Canadian tax proposals affecting mining and basic resources industries.

In recognizing Red China, in sheltering U.S. draft-dodgers, Canada has served notice it intends to prove its political independence of the U.S.—defiantly so. Now the same spirit is beginning to show up in the economic field. What worries men like David Rockefeller is that this spirit may go too far. The economic consequences of Canadian nationalism could one day be more serious than the confiscation of the copper companies in Chile. They could rank in the U.S. businessman's chamber of horrors, along with the possible future loss of Middle Eastern oil.

Consider the numbers. U.S. invest-

ment in Canada in 1969 was about \$35 billion—some \$25 billion of that in direct investment, portfolio and corporate assets. It implies a certain U.S. dependency on Canada too, which varies in degree from one industry to the next. The U.S. gets, for example, 84% of its asbestos, 66% of its newsprint and 15% of its iron ore from Canada.

Count off Canadian natural resources, and it's a checklist of huge U.S. corporations: pulp and paper, forest products—everyone from Crown Zellerbach to Scott Paper to U.S. Plywood-Champion; petroleum—Standard Oil (N.J.) to Gulf to Texaco; chemicals—Union Carbide, du Pont, American Cyanamid; mines—Kennebec, Anaconda and Amax; and so on.

Add to this U.S. control of 97% of the Canadian auto industry; 97% of the rubber industry; plus large chunks of the food, retailing and publishing industries, and the U.S. not only ends up controlling about 46% of Canadian

manufacturing, but—through some 7,000 Canadian companies—about 50% of the entire Canadian economy.

At best, U.S. investors can expect nonretroactive legislation affecting investment practices, mergers, resource exploration, profits and majority Canadian participation in future ventures. At worst: much further down the road, perhaps nationalization of Canadian resources, or key industries.

Make no mistake: Economic nationalism is not just on the extremist fringe. Take the "nationalism" of the Canadian investor. His country is host to some of the biggest corporations in the world. (Du Pont, Heinz, Johns-Manville, Dow Chemical, Continental Can, International Harvester, RCA, General Foods, Procter & Gamble and IBM all have wholly owned Canadian subsidiaries.) But few list their stocks on Canadian exchanges; their debt capital is raised in Canada but their venture capital is usually raised elsewhere. Finally much of their Canadian income is repatriated south of the border, \$2 billion in dividends, profits and payments last year alone.

Or consider the "nationalism" of the fledgling Canadian industrialist who has seen outside companies take over or merge 600 Canadian firms in the last six years. He watches the U.S.-owned Canadian subsidiaries buy their parts and components back in the States—parent company profits outrank subsidiary profits in corporate accounting—and develop their technology in the U.S. with U.S. personnel. Canadians point to the "house" Canadian on the board or in management of U.S.-owned subsidiaries and equate him with the "house" Negroes some companies have among their executives in the Lower 48.

Justified or no, this resentment has roots in many segments of Canadian life. In education it is the worry about the predominance of U.S. professors in the colleges and universities; it surfaces over the amount of U.S. content in Canadian prime-time TV; in the environment the cry is: "People from the States are buying up all the best land, from Vancouver Island to Nova Scotia." But whatever the cause, the final effect may yet be measured in economic terms: in laws, regulations and habits being altered to govern the behavior of outside investors.

As yet there is no agreement on

COMMONS
COMMITTEE
ON
U.S. OWNERSHIP

YANKEE
DOLLARS
GO
HOME

Ian Wahn, chairman of the committee named left, told Forbes: "We are not economic nationalists, we welcome capital from all countries of the world—on terms which will not endanger our national independence." But nobody's quite sure what these "terms" should be.

© The Montreal Star

how to deal with U.S. economic power in Canada. Walter Gordon (Liberal finance minister 1963-65) chaired the Royal Commission on Canada's Economic Prospects in 1955-57. His recommendations included a Canadian Development Corporation to participate in new commercial ventures, flexible continental energy pacts, and federal watchdog agencies overseeing key sectors of the economy.

Gordon's plan was discussed, but nothing was done. Later, however, he was instrumental in enacting legislation to ease the U.S. grip on Canadian banks, insurance companies and finance companies. Recently he told *FORBES*: "The government will have to move; the momentum is there."

Carrying the momentum are men like Professor Melville Watkins, now vice president of the New Democratic Party (NDP), and a University of Toronto economist. Two years ago Watkins chaired a task force on foreign investment that produced the "Watkins Report." That report was concerned with curbing the powers of the multinational corporations in Canada. But it wasn't enough for Melville Watkins, who, moving to the left wing of the NDP, produced the "Waffle Manifesto" which called for the total nationalization of Canadian resources.

Watkins told *FORBES* his view now is that nationalization is the only recourse left to resource nations in the face of the economic and political clout that multinational corporations can exert. Watkins claims it is not just the radicals, but moderate students, too (as at the University of Alberta's conservative Edmonton campus), who identify the multinational presence as inimical to Canada's economic, even political, independence.

The labor-supported NDP is a long way from coming to power at the federal level; with only 23 seats (out of Parliament's 264) and a power base mainly in Ontario province, the NDP constitutes little threat to Prime Minister Pierre-Elliott Trudeau's reigning Liberals. But the NDP is part of a long, respectable socialist tradition in Canada dating back to the Cooperative Commonwealth Federation and the "Regina Manifesto" of the Thirties. The NDP is itself a descendent of the CCF. Government interference in everyday economic life is not considered as much of a bad thing by Canadians as it is by people of the U.S. After all, when Edward Harriman and James Hill were stringing railroads across the U.S., the government was doing it in Canada.

One day the NDP could hope to form a coalition with a left-leaning

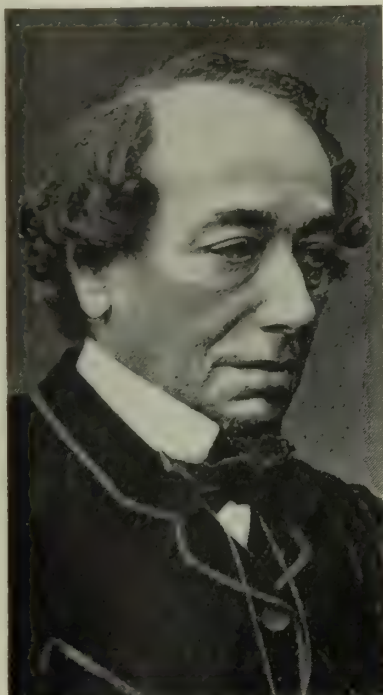
separatist party in troubled Quebec province, and with strong support from a new generation of voters. But even without coming to power, this socialist fringe can exercise pressure on the ruling party to "do something" about the Yankees.

There is a line in the NDP's Waffle Manifesto that, true or untrue, could appeal strongly to the young: "American corporate capitalism is the dominant factor shaping Canadian society ... and Canada has been reduced to a resource base and consumer market within the American empire." (Quebeckers see the same thing in miniature happening to them, but not just from the U.S., from Anglo-Saxon Canadians too.) It's attractive rhetoric for students, and an extreme view, but one that even many moderate Canadians have partial sympathy with.

His office in the same building as Watkins, economist Abraham Rotstein says: "What Canada really is doing is getting into step with other resource nations of the world in terms of how we allow those resources to be exploited." Canada for the Canadians? "If you like. Chile during the Frei administration is roughly where Canada is heading." Rotstein sees Canada placing heavy reliance on a development corporation publicly and pri-

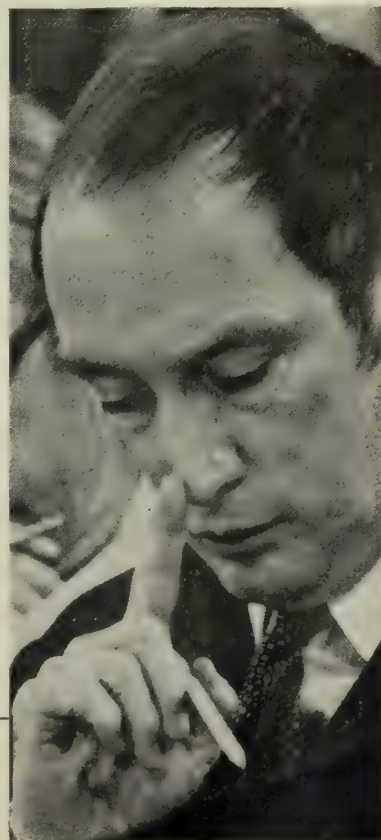
Dilemma

DURING question time in the House of Commons, Prime Minister Pierre-Elliott Trudeau's manner often suggests a somewhat bored Disraeli. Yet Trudeau (right)—at 50 the



world's most mod Prime Minister—is not bored but listening intently, and he is a carbon copy of no one. That's why no one can be sure which way he'll move on foreign investment. The alternatives are simple on the surface: Keep investment rolling in and hope for more jobs, or gamble with jobs, by being somewhat more restrictive, and try to create an increased sense of national independence and greater freedom to move in world affairs. Part of the dilemma is this: It's not merely outside investment per se that troubles Canadians, but that 80% of it is from the U.S. How to encourage East-West investment (Japan, China, Russia, Europe) to redress the balance, without opening the door to increased North-South dependency, is the other side of the same coin. By his unilateral declaration of Canadian sovereignty over Arctic waters, by his suspension of civil rights over Quebec, Trudeau has shown he is capable of very tough decisions, but not precipitous ones. That's one reason he listens so carefully. Once he moves, he cannot easily be shaken. He has been heard to

comment that if the people don't like what his government does, they can vote him out. Disraeli coined a phrase to fit: Never complain, never explain.



vately funded to buy into the action. "Enough has happened to finally make us want to act."

What types of things? Rotstein believes that such laws as the "trading with the enemy act" imply extraterritorial jurisdiction for the U.S. Government. So, he thinks, do some U.S. antitrust provisions. As Canada's recent diplomatic exchange with Communist China shows, the Canadians do not feel any restraints in trading with countries the U.S. Government shuns. What concerns Rotstein, and other Canadian moderates, is that U.S.-owned Canadian companies are prevented from trading with countries Canada recognizes.

By no stretch of the imagination can Rotstein be called either an extremist or youthful radical. Far from it, Rotstein, the editor of *Canadian Forum*,

could be better categorized as a middle-of-the-roader among thinking Canadians. What he does is sum up the thinking this way: "The issue is: nationalization or regulation."

Nor is Richard Rohmer a wild-eyed nationalist. Rohmer, an ex-RCAF pilot, is now a Toronto lawyer and an eloquent advocate of the control of Canadian natural resources by Canadians. Rohmer told FORBES that by the end of this century Canadian population will have doubled, to about 45 million. U.S. population will move up by 50%—to 300 million—and will be screaming for resources. Any binding energy and resource pact would put Canada at the mercy of that overwhelmingly larger U.S. population, he maintains.

Perhaps Canada's strongest bargaining point with the U.S. as this



Images. Canada as a blissful snowladen land populated by romantic Mounties, Eskimos and fur trappers, has all but faded, yet Canadians remain very sensitive to the thought that this stereotype still persists south of the border. A bigger factor behind the new nationalism is a growing disillusion with what the American Way has done to the U.S. cities and the U.S. environment. The Canadians would like the prosperity but not the environment that goes with it.

decade rolls on will not be oil or gas or electricity or minerals, though all these are important, but water. Canada has one-sixth of the world's fresh water—and the U.S. is woefully undersupplied. Says Rohmer: "One U.S. priority should be a population curb which will enable it to keep the population at a level that can match its own resources."

Not surprisingly, Canadians are very sensitive about their vast open spaces. Rohmer is spearheading a movement to keep foreign control out of Canada's Green North—that 3,000-mile strip, between 200 and 1,000 miles wide—the Canadian heartland. His Mid-Canada Development Corp. already has pulled in representatives of federal and provincial government,

U.S. LAND PURCHASES OPPOSED IN CANADA

OTTAWA, Aug. 23—A House of Commons committee urged this week that the government take effective action against the "foreign takeover" of the manufacturing and mining industries in Canada.

'Buy back Canada' plan won't get public funds

By Patrick
The Commons on external affairs has rejected funds for any ma-
ads campaign.
However, it is
page report to
week may cost
of special care
Canada. Deve-
could purchase
and. Such a plan

Limiting foreign ownership termed an impossible task

By Eric Dowd
Ontario moved instead to limit the
of those that can be shipped

Canada Grants Four of Five Firms Permits To Export 6.3 Trillion Cubic Feet of Gas

OTTAWA—The Canadian cabinet granted four of five gas export permits to U.S. firms today. The fifth permit was withheld.

billions cubic feet for 10 years as originally re-
quested. The company also was given permis-
sion to export gas to the U.S. in 1975.
The total cost of \$220
million for the gas
will be paid by the
U.S. government.
The gas will be
exported to the
U.S. through the
National Energy
Board.

White Paper worse than separatism in scaring away foreign investment

By KENAL WINDSTER
The White Paper on
the future of the
country is a
scare tactic.

Foreign investment in Canada \$46 billion

OTTAWA (CP)—
Investment in Canada
end of 1968 was \$46
billion in total
figures for the year
today. In the 1960s
the figure was \$10
billion.

Watkins tells U.S. it ruins our economy

WASHINGTON

No sellout to U.S.

Canada rejects 'water-for-oil'

'Keep firms
Canadian' plea
'Curb
U.S.
hold'

Ottawa readies move on foreign ownership

McGraw-Hill Buys Canadian Concern

Continued From Page 10
The McGraw-Hill Co. has announced the purchase of a Canadian company, a move that is part of a larger strategy to expand its presence in the Canadian market. The company, which is a subsidiary of McGraw-Hill, will be managed by a Canadian executive. The purchase is expected to be completed within the next few months.

Headlines like these, none from fringe publications, give dramatic testimony to the growing Canadian debate on economic nationalism.

academicians, politicians, businessmen and trade unionists to seek ways of insuring "the integrity of this significant midsection of Canada."

Says Rohmer: "Already, with only 6% of the world population, the U.S. consumes 40% of the world's raw materials production. What would that appetite look like to you if you were a Canadian?"

As things now stand, Canada is virtually wide open to U.S. investment. But already there have been exceptions. The federal government did recently refuse Canadian industrialist Steve Roman permission to sell his Denison uranium mines to non-Canadians (see *FORBES*, Oct. 1). It has come down sharply on the U.S. content of prime-time TV. It did severely restrict U.S. investments in Canadian banks, insurance and the media. Right now McGraw-Hill is in the headlines. There are new regulations in the offing, too, for oil and gas exploration and exploitation.

Last month when McGraw-Hill made a bid for Canada's prestigious Ryerson Press there was an uproar. Questions were asked in Parliament, poets threatened to take their work elsewhere. Parliament may yet block the sale, as it did Prudential Insurance Co.'s attempt in 1969 to take over Traders Group Ltd., Canada's second-largest finance company.

Reports Aplenty

Currently, some Canadian brokers want an outright ban on any new foreign investment in Canadian securities firms, prompted by Merrill Lynch's takeover of Royal Securities Ltd., one of Canada's largest financial institutions. Another Commons committee report says special income tax exemptions for advertisers in Canadian editions of *Time* magazine and *Reader's Digest* should be eliminated. After the Steve Roman uproar, the federal government declared that foreigners will be permitted to own no more than 33% of Canadian energy-producing companies, and no single individual or organization more than 10%. This is the way it's heading.

Latest in a long line of committees with recommendations to offer is Ian Wahn's Parliament Committee on U.S. Ownership. Wahn's group has said: "... as a general rule, it is desirable that Canadians should control Canadian companies by owning at least 51% of their voting shares, particularly in the important sectors of the economy where American control is now most highly concentrated."

From the Gordon, Watkins and Wahn reports, Minister of National Revenue Herb Gray is now preparing the paper which Prime Minister

Trudeau will put forward as government policy. Canadian political observers generally believe that Trudeau's measures will be gentler than those in the Wahn report. Newfoundland Prime Minister Joseph Smallwood (see box, p. 28) is certain of it.

Trudeau, however, is not always predictable. One quick way to establish Trudeau's attitude to economic nationalism is to compare whatever he puts before Parliament with the Wahn proposals. If Liberal policy has more teeth than the Wahn report, then Trudeau has taken a strong stand indeed, and has been listening more to the students than to the businessmen.

The complex nature of Canadian nationalism will greatly offset the ability of even the Conservative Party

Despite all this, there are some strong arguments for restraint in restricting U.S. companies in Canada. Stacked against the emotional appeal of Canada for the Canadians are some firm political and economic facts of life. One is that most of the provincial prime ministers are more interested in jobs than in whether a New York- or Toronto-based firm issues the paychecks. Ontario's Premier John Robarts has said: "I'm not frightened by the presence of foreign capital in Canada. . . . I think a lot of Canadians can earn a damn good living working in plants that are here because American capital put them here."

Quebec's Premier Robert Bourassa, in New York meeting with U.S. industrialists, investors and financial in-

MARCH AGAINST THE SELL-OUT OF CANADIAN RESOURCES



**SAVE CANADIAN RESOURCES FOR
CANADIAN JOBS**

**JOIN THE CANADA-WIDE PROTESTS
STOP THE CONTINENTAL ENERGY DEAL**

Quenching Canadian thirst for outside investment are banners like these culled from a wall poster for a "Waffle-Manifesto-Movement" rally.

(the Tories) and others to maintain a wide-open policy. Proposals are proliferating, and the pressure is mounting. To that extent then, even as the Tories in Britain when they return to power don't abolish socialized medicine, or denationalize all the nationalized industries, so the Canadian Conservative Party in power might similarly be conditioned by the prevailing mood of the people.

stitutions, told *FORBES* he had staked his political future on his ability to attract industry to Quebec. "Industry means jobs," he said emphatically.

Remember that the Canadian provincial prime ministers have considerably more power than U.S. state governors have, and the provinces are constitutional custodians of their own natural resources.

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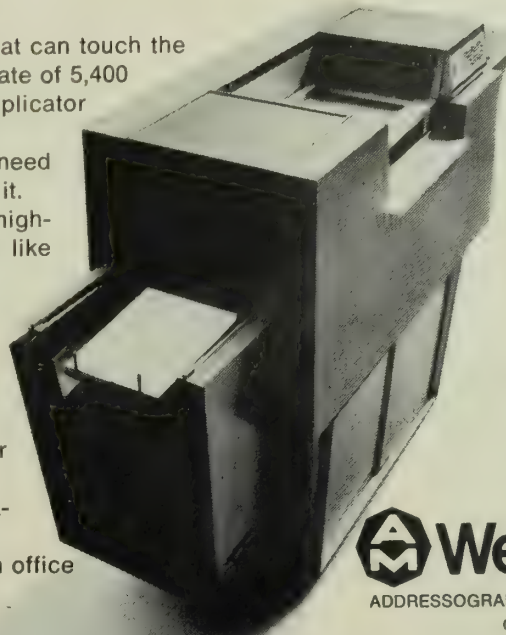
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is the fact that Canada has its "continentalists" who think in North American terms and believe any investment is good investment—a bit like Adam Smith's guiding hand. This categorizes to a large degree the Tory party. Most other Canadian politicians appear to range from mildly concerned to rabid nationalists. Quebec separatists have a category all to themselves.

The current Liberal government of Prime Minister Trudeau reflects these conflicting pulls. Trudeau is a continentalist-French-Canadian nonseparatist who must balance the strong emotional appeal of economic nationalism against the pocketbook issue of jobs and exports.

Perhaps the Trudeau government would like to see economic nationalism go away so it could address itself to more immediate problems. But it won't go away. That there is no nationalist consensus in Canada does

not mean that Canadian nationalism is not a very real factor. Scratch a Canadian and, whatever his politics, you will find him in some way or another resentful of U.S. influence affecting "the quality of Canadian life."

Are U.S. businessmen worried? A good percentage of those queried by *FORBES* just didn't want to talk about the subject. A few said that they regard the whole thing as simply political rhetoric. Said one, an executive in a major U.S. food company with major Canadian interests: "We've been here for 60 years, and all this talk won't do anything to us at all." Said another, a chemical executive: "When all the shots are fired, how much of it has really come home to roost as law?"

Such statements have a head-in-the-sand ring to them. Augustine R. (Gus) Marusi, chairman of Borden, Inc. sounds more realistic. "I would like to see," says he, "frank talks be-

tween the two countries now, rather than waiting until these matters become a sore issue between the two governments." Like David Rockefeller, Marusi realizes that today's political slogans have a depressing tendency to become tomorrow's economic policy.

So it is that in Canada, as elsewhere, two great trends are in conflict: the tendency for the world to become one economically; and the strengthening everywhere of nationalism. The two are at war in Canada. Which will win? A good deal may depend on how the U.S. Government, U.S. businessmen and the U.S. press handle the situation. To refuse to compromise with Canadian economic nationalism will be to encourage it. To go along with it will entail some loss of profit and privilege by U.S. business, yet that course will almost certainly prove to be the most sensible of the alternatives. ■

Smallwood's Big Gamble

"THEY'RE a bunch of bloody damn idiots!" That's how dapper Joseph M. Smallwood, the 70-year-old premier of the Canadian province of Newfoundland and Labrador, characterizes federal government officials who would like to see U.S. investments in Canada limited. Calming down, Smallwood says that limiting U.S. investments is just the stuff that political speeches are made of, not reality.

Smallwood has good reason to talk this way: His whole future rests on the success of a controversial project sponsored by U.S. investors. At Come By Chance, Newfoundland, near an isolated fishing village of ten families, is the start of a giant refinery, petrochemical and paper complex, financed in Europe but managed and eventually to be owned by Shaheen Natural Resources of New York. In the eyes of his political enemies, Smallwood has practically given the refinery to Shaheen free of charge in order to generate jobs. Because of political infighting, the planning has dragged on for four years, and it will be two more before the refinery is completed.

The project is being financed through European banks with \$95 million covered by British Exports Credits Guarantee Department to finance British goods and services. But the construction contract was given to Procon, the British subsidiary of an American firm, Universal Oil Products. Another \$25 million is a Eurodollar loan to finance local costs. The Newfoundland gov-

ernment itself will guarantee another \$30 million.

The final \$10 million, plus working capital, is to come from John M. Shaheen, whose privately held interests include Macmillan Ring-Free Oil Co. and Can-Amara Export Refining Co. His Newfoundland Refining Co. subsidiary will operate the plant for 15 years and then acquire ownership after repaying the provincial investment and others out of the profits. The complex will also be tax-free for the first seven years because of accelerated write-offs.

What the Newfoundland government gets for its investment after the principal is paid back is 5% of the gross in perpetuity. What Shaheen gets is the \$160-million refinery after 15 years.

If the project fails, it could mean the downfall of Smallwood, the man who has run sparsely populated Newfoundland since he took it into the Canadian Confederation 22 years ago. To criticism of his dealing with Shaheen, Smallwood, a one-time Socialist, snaps: "You need a capitalist to get things running smoothly. Maybe in 30 years or so, things will be going well enough so that I can become a Socialist again."

Smallwood's critics say: "The government gave away too much for too little." His supporters say: "Our sagging economy badly needs that \$10 million in annual wages."

And there in a nutshell are the issues—and risks—in the fuss over Canada's economic nationalism.



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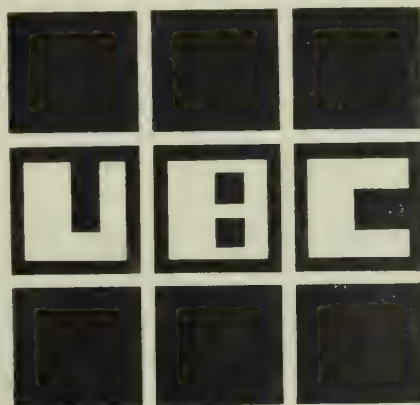
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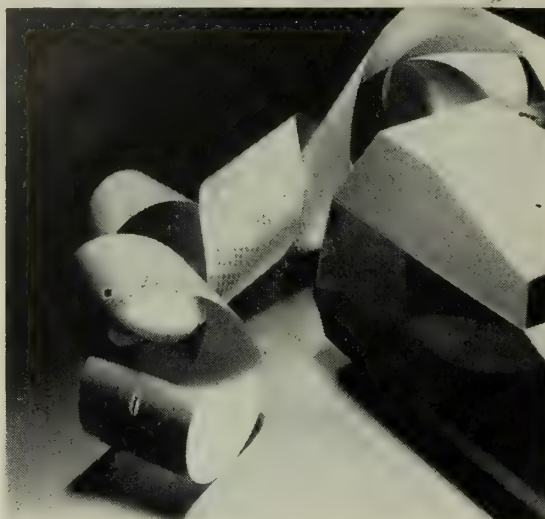
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whereas most calculators have a multiplication wheel and a division wheel, the 167 has one wheel that does both jobs. (Of course, the electronic calculators are lighter, though not always smaller. But that's because they can't print. Most with printer attachments come clunkier!)

Each part is individually checked before it goes into the 167. None of the haphazard spot-checking the others get. Which is why Hermes has the confidence to give a one-year guarantee on all parts, including the electrical. And on labor as well! Which other calculator, electronic or otherwise, dare make that offer?

The fast thinking vs. fast-acting factor! No doubt about it, the electronic machines are the fastest thinkers. But before they can think, they have to be informed. This can take the operator quite some moments, because the design of the electronic keyboards is usually dictated by the machine, rather than the operator. So speed becomes relative. Now, the 167 keyboard was designed solely with the human hand in mind. Every key lies within the span of the average hand, so only the fingers need move. The hand is virtually at rest. This means less fatigue for the operator. Also, because of the logical lay-out of the keys, there is less chance of error.

And the 167 is mistake-proof! For example, if the operator tries to multiply two figures whose total would be too long to print, the 167 will not even start to work rather than give a partial answer. Find another machine that watchful! Also the 167 needs no program lever. Programming is automatic and eliminates the chance of error creeping in. And consider division. Other machines give the answer first and the remainder last—which often confuses hurried operators. The 167 always gives the answer last—where you would expect it to be. And of course, though a lights-up answer may be faster, remember the operator may copy it down wrong! Whereas the 167 writes it out for you...and gives you detailed workings that you can keep.

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Trying It on the Cheap

To its critics, the Government's Railpax scheme looks like a classic case of trying to treat a mountain like a molehill.

To BUILD the world's finest passenger railroad, the Tokyo-Osaka Express, Japan spent something like \$1.5 billion. This is peanuts compared with what the U.S. spends on highways every year, but it's a fortune compared with the pittance that Congress seems willing to spend to save U.S. rail passenger service.

Last month, after both houses of Congress passed it and the President signed the bill, the U.S. National Railroad Passenger Corp. came into being. Its purpose: to operate all U.S. passenger trains—except for commuter services. Known as Railpax, the new corporation is scheduled to get—if Congress agrees to appropriate the money—the princely sum of \$40 million in grants. And, provided that the money can be raised, Railpax and the railroads that agree to join it will get federal guarantees for another \$300 million in loans.

The \$40 million is less than the U.S. spends on highways every day. It is also a drop in the bucket compared with the \$200 million which the railroads say they lose—in cash, not counting bookkeeping charges—operating passenger trains.

The Great Put-On?

How can such a drop possibly fill the bucket? Not many people think it can. As now constituted, Railpax looks more like a legal alibi to get both Congress and the ailing railroad industry off the hook.

The theory of Railpax is this: All the railroads are invited to sell their passenger equipment to Railpax; either they come in or they are stuck with existing passenger trains until 1975. The corporation will pay them in its own stock. Railpax will then discontinue something like 80% of the remaining 370 passenger trains in the country, using the savings from the discontinued trains to improve service on the remaining trains.

In theory, therefore, without spending any real money, the politicians will have answered the demand for better intercity passenger service; and the railroads will have one less burden to bear.

Increasingly, however, people who understand the situation don't think Railpax will work.

Illinois Central Chairman William B. Johnson asks: "What about job protection agreements? Joint facility operations like the St. Louis Terminal? What's the formula for payment?

None of this is spelled out." Southern Railway President Graham Claytor asks: "If we give the corporation our equipment, will they pay a fair depreciated value for good-condition stainless steel cars, or try to pay us the scrap value?" A group of railroads asked the Department of Transportation to clarify a dozen doubtful legal points, and a Washington legislative counsel predicts court challenges in areas touching Interstate Commerce Commission jurisdiction. The man who wrote the Railpax Act, Reginald Whitman, Katy president and former Federal Railroad Administrator, calls

it "a step forward, but not enough to make fundamental improvements in track, roadbed and signaling." A lawyer who had a hand in writing the act comments: "A lot of roads are used to shunting their passenger trains aside in order to let a fast freight go through. They don't much like the idea that Railpax won't let them do that anymore."

What it all seems to boil down to is this: Railpax simply shifts the burden from one hand to another and leaves untouched the basic issue. As one public official puts it: "We have good highways because the taxpayer foots the bill. That's the only way we're ever again going to get good railroad service. Anyone who says you can get it through gimmicks like this, without spending tax money, just doesn't understand basic economics." ■



Cut-Rate Streamlining. There's no short-cut to top-notch rail service that will come cheap. When the Japanese decided Tokyo and Osaka needed better service, they built a new railroad from scratch (above). It cost plenty, but proved hugely popular, cutting heavily into competing airline revenues. The Japanese insist that it makes money, too. U.S. government officials are acting as though a similar job can be done here with just a fraction of the money outlay. The truth is, however, that aging rolling stock traveling on bumpy roadbeds is not going to lure many passengers back to the railroads. And "cosmetics" won't help.



As Good As New?

"THIS COMPUTER IS AS GOOD AS NEW. IT WAS USED BRIEFLY BY A CAREFUL LITTLE COMPANY THAT NEEDS MONEY FAST. ITS LOSS IS YOUR GAIN. HURRY! THIS ONE WON'T LAST."

NO SUCH ADVERTISEMENT has yet appeared and probably never will. The fact remains, however, that a thriving market for used computers is developing, and it promises stiff competition in some areas for the already big computer makers.

This is disconcerting for International Business Machines because the company has done its best to prevent such a market from developing. IBM scraps its computers—literally—rather than see them go on the market as second-hand equipment.

Until recently, IBM hasn't had much to worry about on this score. IBM and its competitors push rental over sales. Thus not enough computers had been *sold* in the 15-year history of the business to support much of a resale market. True, for several years there has been a little second-hand trading of IBM's 1400 series, which came out new in 1960; but these were technologically so inferior to the 360 IBM brought out in 1965 that few users found them attractive.

But in the last five years enough of the popular 360s and similar third-generation computers have been sold, and enough of them are now up for

resale, that there is quite an active second-hand market. A used 360, unlike a used 1401, is a very attractive piece of equipment. The new computer models coming out in 1971 don't represent nearly the technological jump over the 360s as those machines did over the 1400s.

If this is so, why are people selling 360s? For various reasons. Some need bigger and faster third-generation computers. Some may be angry at Sperry Rand and switching to IBM or vice versa. Some are just plain selling. There obviously is too much computer power, for example, in the depressed aerospace industry.

The market is eagerly gobbling up these machines. "A 360 bought in 1965, if maintained properly, is as good as one bought new in 1970," claims George Heilborn, chairman and president of Information Processing Systems, a used-computer broker and consultant in Englewood Cliffs, N.J. He argues thus: When IBM gets a computer back from one of its rental customers, it reconditions it and rents it out again at the same price it charges for new equipment. Provided, of course, that it doesn't scrap it.

As a rule of thumb, the used-market value of an IBM 360 will drop about 10% a year, non-IBM equipment somewhat faster. "Today," says Heilborn, "you can buy a three-year-old 360/40 for 72% or 75% of IBM's list price." That's a saving of about \$70,000 to \$80,000.

The used market has gotten a boost quite naturally from the business slowdown. Many users have found they could cut their data processing budgets and still get the equipment they wanted by going into the used market. But Heilborn doubts business will slump when the economy perks up: "The market should grow 20% to 30% a year for a few years just because the equipment has been sold."

Svend E. Hartmann, executive vice president of Time Brokers Inc., another used-computer broker, gives other reasons why the market should grow. "Buying is actually more flexible than leasing, which has a term. You can resell your equipment anytime, and you can tell fairly accurately what your computer will be worth in two years."

Hartmann is describing the way the used-computer market feeds itself. Users feel safe buying a 360 because they know its resale value will be about 80% of their cost in two years, 60% in four years. The more they buy, the greater the potential pool of future used equipment for sale.

The pool of used computers could become really huge several years hence if the leasing companies, which have bought something like \$4 billion worth of IBM 360s, begin to dump their equipment on the market. The leasing companies can't resell now without taking big book losses. They have stretched out their depreciation so far that the market value of their computers drops faster than the depreciated book value.

Who's Worried?

IBM says it is not bothered by this threat to its future business. Says Francis G. (Buck) Rodgers, IBM director of marketing: "The used market is no problem to us because the whole computer market is growing. Those people who buy used computers eventually will buy new ones; they get hooked."

Rodgers is probably right, for the used-computer market is peanuts today: Heilborn estimates that only \$50 million worth of used computer equipment (at second-hand prices) will be sold this year. But the computer as a big business is little over a decade old, and the market for used computers is brand-new. In future, the chances are that used computers will end up with a bigger slice of the total market than they have today. ■



Dime A Dozen. Some brokers of used computers carry inventory (as above) to try to increase their business. But most don't and none have to. "All you need to get into this business," says broker George Heilborn, "is a pocketful of dimes and a phone booth. So, unfortunately, as in any secondary market, we have our share of schlock operators."

Homographics, Quaternions and Notations

That's the kind of specialty that has made the Oxford University Press one of the world's most successful publishers.

*I do not love thee, Doctor Fell,
The reason why I cannot tell;
But this alone I know full well,
I do not love thee, Doctor Fell.*

A STUDENT named Tom Brown composed that famous bit of doggerel back in the 17th century, but it could easily have been a writer. For Dr. John Fell was not only Dean of Christ Church and later Bishop of Oxford, he was also a publisher, and a brilliant one. As a clergyman of the Church of England, he was, perhaps, a most unlikely publisher, but the Oxford University Press has always had a penchant for unlikely publishers. One of Dr. Fell's successors was Sir William Blackstone, author of the book that generations of aspiring American lawyers read to qualify for the bar. The man who runs the Oxford University Press today, Colin Roberts, is a papyrologist who discovered the earliest datable fragment of the New Testament.

Almost everything about the Oxford University Press is unlikely. The board of directors, or delegates, as they call themselves, are all Oxford academicians; they include the Regius Professor of Divinity and the Camden Professor of Ancient History. When they gather to decide whether to spend \$1.8 million, say, on expanding and modernizing printing facilities, they wear academic robes. Appropriately for a publishing house that can trace its origin back to 1478, when Theodore Rood printed the first book at Oxford, the Commentary on the Apostles' Creed attributed to St. Jerome, the Oxford University Press has its



headquarters in a Georgian mansion built in the 1770s as a townhouse for the bishops of Ely.

Covers the Earth

Ely House is not an ivory tower. The Oxford University Press is a flourishing business—as up-to-date and efficient as any publishing house anywhere—highly competitive and highly profitable. One of the most influential publishing houses in the world, it has assets of more than \$25 million and sales of roughly \$40 million. It has offices and branches in five continents and 21 countries, including places like

Kuala Lumpur, Addis Ababa, Lusaka and Dar es Salaam. It publishes books not only in English but in such languages as Assamese, Kannada, Marathi, Tamil, Pashto, Xhosa, Lozi, Akan, Igbo and Yoruba.

It has a list of 18,000 titles, by far the largest of any nongovernment publishing house, and it prints at least 1,400 more each year. In addition, it is the largest music publisher in the United Kingdom.

The Oxford University Press owns a printing works with 550 different fonts of type in some 150 different characters, including hieroglyphics and Minoan characters, Syriac, Ethiopic, Amharic, Sinhalese and Cyrillic. It has a computerized distribution center at Neasden that handles 16 million volumes a year; the warehouse can hold a total of 3 million. It makes its own paper in a mill built in 1672 but which uses the most advanced techniques.

Every respectable publisher occasionally will put out a book on which he knows he will lose money but which he thinks is worthwhile. The Oxford University Press makes a practice of doing so. It actually has a special branch for this purpose, the Clarendon Press. Among the 18,000 titles are such awe-inspiring ones as *Homographics, Quaternions and Notations*, *The Ili Crisis*, *Anglice Reddenda*, and *The Ashmolean Ostrakon of Sinhue*.

The financial structure of the Press is a thing unto itself. Wholly owned by Oxford University, the Press obviously cannot raise equity capital. And it has a horror of long-term debt.

Class Promotion. The Queen Mother and a Westminster Abbey service helped kick off Oxford's new Bible.





Blindfold your secretary and find out if the towels you're using are as soft as Fort Howard's.

The softer the towel, the better the quality. Today all quality towels have good absorbency and wet strength. The difference between good quality towels and top quality towels is softness.

Softness is a personal thing. There are laboratory tests to tell you which is the softer towel.

But laboratories don't use towels, people do. And they use softer towels longer. So they use less.

And when it comes to softness our Palmer® Handifold® towel is the softest C-fold towel you can buy.

Test it yourself. Blindfold your

secretary. Then give her a Palmer® Handifold® towel and one of the towels you're now using. Ask her to rub them between her fingers and tell you which one's softer. She'll probably choose the Fort Howard towel.

Need a blindfold? Write us on your business letterhead and we'll send our man over with a "Softness is a Personal Thing" test kit.

It contains a blindfold and a sample of Palmer® Handifold® towels. Everything you need to make the test.

Except the secretary.



Fort Howard Paper

Green Bay, Wisconsin 54305

Only 2.8% of the total capital employed is long-term debt.

And how could it possibly do anything but lose money? It publishes books it knows will be a total loss; it ties up millions of dollars in buildings, inventory and projects that won't bring in a dime for years. Yet, for all that, the Press earned a very comfortable \$3 million or so last year.

Actually, by the standards of the publishing business, the Press is a very profitable enterprise. In a report issued last May, a special committee headed by Professor Sir Humphrey Waldo, Chichele Professor of Public International Law, compared its performance with that of seven leading commercial publishers. Since the Press must keep a huge inventory of scholarly works that move very slowly (although they often keep selling for years), it did not do nearly so well in return on capital employed—10.5% in 1967-68 vs. 17.7% for its commercial competition. On the other hand, because it has one of the most distinguished back lists in the world, it did significantly better than its commercial competitors in return on sales, 9.3% vs. 8.2%.

Domination Free

If the Oxford University Press loses money on many of its books, others are inexhaustible gold mines. *The Oxford English Dictionary* has been yielding a steady profit for decades. So has the *Dictionary of National Biography*. The New DNB will tie up \$2.5 million in prepublication costs; once it comes out, it too should be a steady money-maker. And there are those lucrative twins, *The Oxford Companion to English Literature* and *The Oxford Companion to American Literature*.

The Press, moreover, has a thriving textbook business.

Looking at the matter in cold blood, the money the Press loses on scholarly works could be considered the major reason for its profitability. As the committee that investigated the Press noted, "The Press's high reputation in publishing circles and throughout the learned world depends not only on its own exceptional performance but also on the knowledge that . . . it is free from domination by commercial considerations. The loss of that reputation might indeed be a serious matter. . . ."

Actually it was Dr. Fell who launched the Press on its present course when he took it over in 1671 with three associates. It was he, for example, who began the great history of Oxford Bibles and Prayer Books, which still sell in the hundreds of thousands of copies every year. Tom Brown may not have loved him, but the Oxford University Press has reason to cherish his memory. ■

REVOLUTION



THE RADIAL REVOLUTION. We have to own up. We started it.

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The Michelin-X Steel Radial tire is first of all built for today's hi-speed turnpike driving. Its revolutionary radial construction combined with the unique steel safety belt beneath the tread virtually eliminates dangerous heat blow-outs and punctures.

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We guarantee in writing at least 40,000 miles on our Michelin-X treads. Four to one as compared to most

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And we're even happy to say it . . .

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IN TIRE INNOVATION

*Michelin guarantee covers 40,000 mile tread life, defects in workmanship and materials and normal road hazards (excluding repairable punctures). Is limited to free repair, or credit or refund equal to original purchase price multiplied by percentage of guaranteed mileage not run (at Michelin's option), and is conditioned upon use with "Airstop" tubes (where applicable) and non-commercial use on passenger car or station wagon.

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The reason most people have to move to a bigger computer is that their workload outgrows their computer's memory.

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So, when you outgrow your 360/30, 40 or 50, you can make a smooth, logical step to the RCA system in the size you need.

Instead of being forced to jump to an IBM computer that's too big.

Why pay for power you don't need?

Here's an example. Say you have a 360/30 with the maximum memory size (65K) and you've outgrown it.

IBM would like to move you up to the 370/145. With a memory not even double yours (114K). But its processor is eight times as powerful as yours.

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We don't believe you do. Between the 360/30 and the 370/145 is an RCA computer that just fits.

The RCA 2. It doubles your present memory and more than triples your present power—the right amount of both. And it's \$41,000 a year less than the 370/145.

You do have one other choice, of course—the 360/40.

But it's not a new computer, and it's a big jump



up in price. The RCA 2 has half again the power of a 360/40 and costs \$15,000 a year less.

Bigger real memory. Unlimited virtual memory. More memory for less money.

Balancing memories with processors sensibly isn't the only way we work things to fit you.

Virtual memory is even more dramatic.

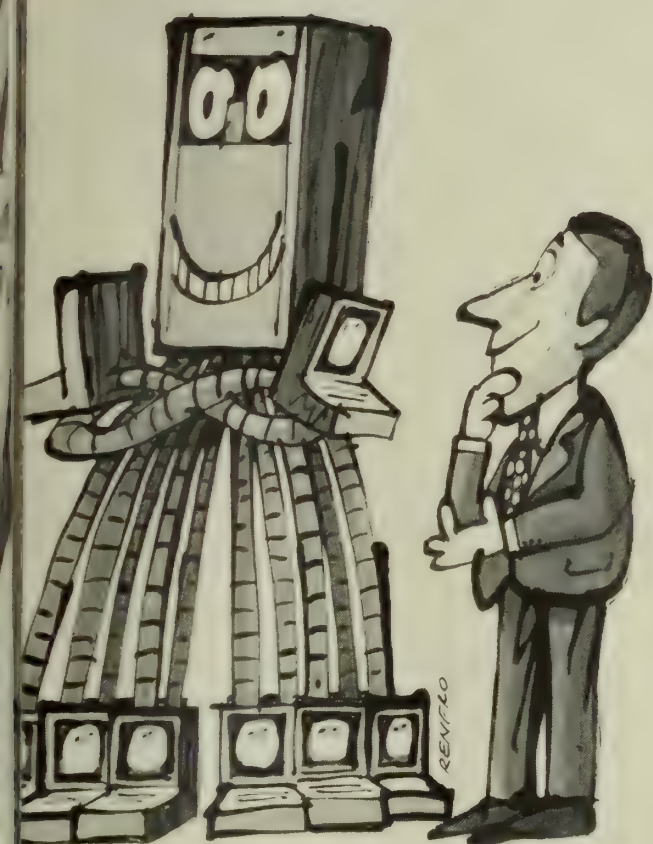
Virtual memory makes a computer work as though its main memory were unlimited in size.

Which means it's hard to outgrow.

And talk about a computer that just fits.

An RCA computer with virtual memory can do the work of a larger IBM computer with real memory.

computer that's too big, that just fits.



The only new computers that have virtual memory are RCA 3 and RCA 7.

Mode of Operation and Guaranteed Conversion cut risk.

We don't want you all excited by our new computers, but scared of switching. Each of our new computers can include 360 Mode of Operation. It runs most DOS programs, protect your software investment. And, for 360/30, 40 and 50 DOS users who wish to convert, we'll switch you over. And guarantee it. We'll convert your present applications for an agreed fee, by an agreed date.

The guarantee provides for penalty payments by RCA if we don't perform, and other appropriate provisions to protect both parties.

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Three weeks after announcing our new computers, we'd sold 2½ times our 1970 forecast.

And 75% of our new customers are IBM users. Maybe it's because our new computers are the only ones with what IBM users asked for.

The right size. The right price. The right service. Making them not just a step up, but the right step up.

We're out to win you over. And we only win when you win.

RCA
COMPUTERS

No Glamour, Just Growth

The growth isn't necessarily where the glamour is. It's often in homely things. Light bulbs, for instance.

IN THE LAST FIVE YEARS General Electric has lost close to half a billion dollars in atomic power, computers and jet engines. Last winter's long strike cost the company another \$100 million-plus in decreased profits. Despite these body blows, GE will earn upwards of \$270 million this year, or more than 10% on its stockholders' equity.

How has it managed to do so well in the face of all these problems? By continuing to be the leader in two of the best industries around: household appliances and heavy electrical equipment. And not the least of GE's strengths is in a prosaic but extremely dependable business, electric light bulbs and lamps.

Light products account for an estimated \$400 million of GE's \$8 billion in total sales, or only about 5%. But they contribute an estimated \$50 million or so in profits, or almost one-

fifth of GE's after-tax earnings. Without light bulbs GE probably would have lost money during the Depression of the 1930s; today bulbs are still a solid if unglamorous backbone of its income statement.

The fact is, the whole lighting business—lamps and bulbs, fixtures and other gear—is one of the great unsung glamour industries. Just look at the numbers. The industry's sales now add up to over \$2 billion a year. These sales yield upwards of \$175 million in after-tax profits. Best of all, they keep on growing at a fairly rapid pace. Over the past decade they've gone up by nearly 6.8% a year, or half again faster than the growth of the U.S. economy. By 1980 sales are expected to more than double to \$5 billion, according to a recent Stanford Research Institute study.

The main reason all this has gone unsung is that there is no major lighting company as such. For example, the lamp business, \$800 million last year, which also includes specialty lamps like auto lamps and flash lamps, is dominated by three very large and diversified companies: GE, Westinghouse and Sylvania, a subsidiary of General Telephone & Electronics. The three do 85% to 90% of the business in the U.S. For them lighting is only one of many businesses; the sales and profit figures are buried deep within their financial statements. The fixtures business, on the other hand, is highly fragmented. There are literally thousands of companies in the marketplace, the majority of them quite small and closely held.

However, lighting has not gone unnoticed by the conglomerates and other diversification-minded companies. Walter Kidde, International Telephone & Telegraph, Keene Corp., Emerson Electric and U.S. Industries have all jumped in, especially on the fixtures side, where acquisitions are much easier to pick up.

But the fixtures business, while large (\$1.4 billion) and rapidly growing (nearly 8% annually), has nowhere near the profitability that marks the lamp and bulb business. Last year Sylvania actually lost \$5 million before taxes in fixtures and tried, unsuccessfully, to sell off that part of its lighting business to Keene Corp. last spring. Apparently the Justice Department looked upon it unfavorably. Furthermore, unlike the lamp business, which is close to 90% replacement each

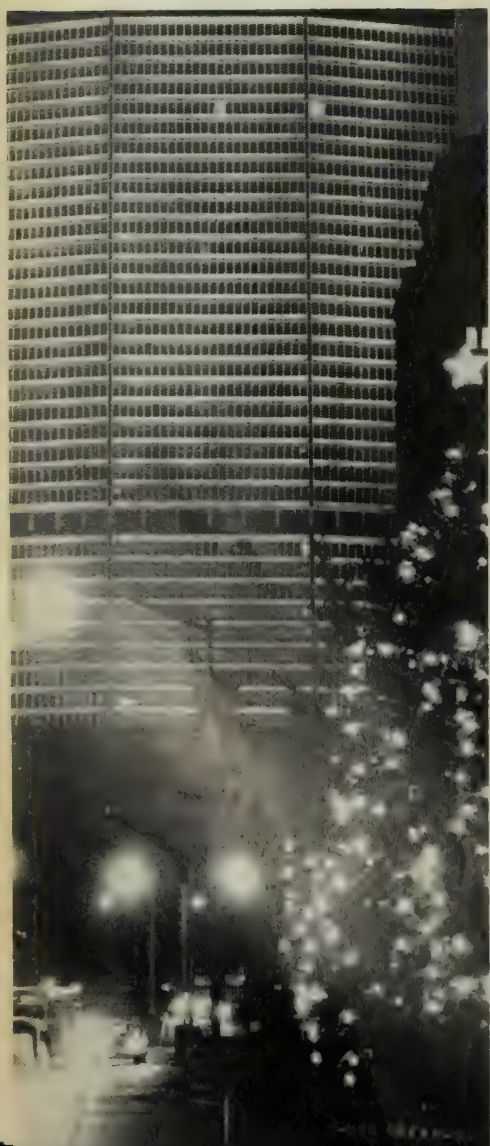


year, the fixtures business is heavily dependent upon housing and construction starts, which are affected by tight money and business conditions. Nineteen-seventy has not been a good year for many fixture makers and there has been a shakeout. The companies that earn healthy profits in this heavily populated, more competitive fixture side of the industry are those that can claim a special niche—Emerson Electric and Westinghouse in advanced, more complex lighting systems; Lightolier and Thomas Industries in higher margined residential fixtures, where there is also a sizable replacement market.

Profit in Lamps

The lamp business is very different. General Electric is by far the largest in lamps and bulbs, with around half the market. Westinghouse has a little over 20% and Sylvania has a little less than 20%. The remaining 10% or so is scattered among a dozen specialty producers, of which the largest is Duro-Test Corp., a publicly owned independent with annual lamp sales of \$33 million.

Because of its large volume spread across all the major market segments—residential, commercial and industrial—GE is the most efficient producer and nets the fattest profits. It is estimated to earn 30 cents before taxes on each dollar of sales on its lamp operations. Its greatest strength is in incandescent bulbs, where it has over 60% of the \$280-million annual sales volume. Margins on the high-volume 60 to 100 watt bulbs are considerably above GE's overall average margins. Westinghouse, which has a somewhat similar product mix but a smaller volume over which to spread its production and sales costs, probably nets around 20 cents before taxes per dollar of sales. Sylvania earns in



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Numbers are usually dull. But if you're planning to raise money, you might find these numbers fascinating.

In the first half of 1970, we managed or co-managed 50 straight debt offerings totaling \$2.7 billion. We sold \$470 million

of that total ourselves—49 percent more than we committed for. In 36,600 separate transactions.

You know why. Distribution. We keep in touch with every major institution, hundreds of smaller ones, and thousands of individual investors all over the country and abroad.

That often enables us to distribute an issue even when money is tight. And it's one of the reasons we've managed or co-managed so many debt offerings (62 in 1969, 85 in the first nine months of 1970).

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To talk about your sinking fund—or most any area of money management—get in touch with Rudolph Chval, Senior Vice President and Director of our Municipal and Corporate Bond Division. Phone (212) WH 4-1212. Or write to him at Merrill Lynch, Pierce, Fenner & Smith, Inc., 70 Pine Street, New York, N.Y. 10005.

Merrill Lynch Services for Management

the area of 15% pretax because of its greater exposure in lower margined fluorescent bulbs. However, it gets far higher profits from flashcube bulbs.

Another big beneficiary from this market is the Corning Glass Works. Its patented machines turn out most of the blanks—that is, the glass forms—used in the U.S. So efficient is Corning and so huge its production that, except for GE and to a much smaller extent Westinghouse, bulb makers find it cheaper to buy from Corning than to produce blanks themselves.

With this kind of profitability, it might seem strange that there isn't more competition. But that's what makes the business so profitable. It takes really big volume to make use of all the potentials for automation in this business and it requires technical knowledge of highly specialized machinery which just isn't available. The Big Three are not only highly automated, they are highly integrated. A newcomer with small volume and only partial integration would labor under tremendous cost disadvantages.

For Big Spenders

Capital costs are high. Lamp producers spent about \$30 million last year on new equipment and plant. But the biggest investment is in the inventory of bulbs themselves. Because most bulbs are shipped on consignment, hundreds of millions in working capital is tied up in inventory.

The fact is that no one has broken into the market on any scale since the late Thirties. The successful newcomer was Sylvania. As a tiny company in 1939 Sylvania came up with its own version of fluorescent lighting which enabled it to get out from under GE's incandescent licensing domination and eventually capture a sizable 25% share of the \$160-million fluorescent market. Sylvania also took over a small floodlight company during the 1940s that gave it a toehold in the camera lighting business. By coming up with new developments in flashcube and floodlight technology Sylvania has gained about half of another \$160-million market. But, as one industry analyst says, "If Sylvania had tried to enter just a few years ago it couldn't have made it."

One company that did try more recently was giant ITT. In 1966 it bought out one of the few remaining light bulb independents, Champion Electric, and subsequently a number of lighting fixture firms. So far the venture has reaped little in the way of profits. Even specialty bulb maker Duro-Test, faced with increasing competition and rising costs, has had trouble matching sales increases with profit gains during the last few years.



Some parts of this business have real growth potential. Lamp sales have grown fastest in the nonresidential and specialty markets. Auto lamps grew rapidly and so have flashcubes and camera lamps. Specialty sales are now a combined \$300 million. Outdoor markets have been spurred by the need for more street lighting to combat crime and by the construction of many new outdoor sports arenas around the U.S. There is greater price competition in nonresidential markets, however. The customers tend to be larger and more sophisticated, and a few foreign competitors have been more in evidence in the outdoor lamp market. As a result, profit margins are narrower.

By far the most profitable and steadiest lamp market, then, is the residential side. It now totals about 840 million bulbs annually and promises to grow to about 1.1 billion bulbs by 1980. "Home lighting in the 1970s will involve the use of bulbs of new shapes and sizes for decorative and general lighting applications," predicts Robert V. Corning, vice president over GE's lamp division. "For example, low-voltage spot and flood lamps will be used to highlight pictures, art objects and plants." Naturally he expects even higher profit margins to come along with the higher prices for these kinds of lamps.

But the industry's bread and butter will continue to be the standard 40

through 100 watt bulbs, which account for around 75% of all incandescents sold. Supermarkets and other distributors love to sell these bulbs because the turnover is good and the gross margins run to more than 50%. The margins are quite good for the manufacturers, too. For many years during the Sixties the price was 24 cents a bulb. In 1969 the manufacturers inched it up to 25 cents and early this year to 27 cents. This month it will jump again, to 30 cents. Assuming that wage increases and higher production costs ate up around 15% of the last increase, that will add about \$10 million in revenues for the Big Three, half of which will flow down to profits. "The most important factor in selling bulbs is availability," says Westinghouse's Thomas W. Landrum, vice president for lamp operations. "If household bulbs are heavily and visibly displayed in the store, they will be bought. Price is not an important factor."

Unlike many another industry, the household bulb business is not very often disrupted by design or technology changes that could cause market shares to shift. The manufacturers plow most of their research and development money into commercial and outdoor lamps. Thus GE announced last month a 50% increase in the rated life of its 400-watt Lucalox lamps from 10,000 to 15,000 hours. But household bulbs last nowhere near that long. Today close to two-thirds of household bulbs are rated for only 750 hours, exactly the same as in 1933 when it was *reduced* from 1,000 hours.

Added Disclosure

To be sure, there have been 1,200- and 1,500-hour bulbs on the market for several years, but the manufacturers haven't pushed them very hard. Westinghouse and Sylvania have made some modest attempts to market them in recent years. Leader GE, on the other hand, dropped them in 1969, claiming there was little interest. They maintain that longer life bulbs necessarily emit slightly less light. The Federal Trade Commission, however, is applying pressure on the manufacturers to market the longer life bulbs and print clearly on the package the light output rating, or lumens. That way shoppers can make up their minds how much light output they are willing to sacrifice for a somewhat higher priced but longer life bulb.

Conceivably this could provide at least a small opening for companies with smaller market shares, like Westinghouse and Duro-Test. This in turn could dim the profit glow of General Electric's lamp division. But don't bet on it happening. ■



The Money Men

"The Money Is There"

AS THE RESULT of our running a series of articles during the past year or so about venture capital, *FORBES* editors have received dozens of letters and telephone calls from would-be entrepreneurs. "I've got this little company and we make a terrific product," they invariably begin. They go on to say that unfortunately, the bankers and brokers have proved "short-sighted," and initial attempts to line up venture capital backers have been in vain. So where, they seem to be asking, is all that venture money that *FORBES* claims is around?

How about this? we recently asked Benno C. Schmidt. Is the money there or isn't it? Tall, easy-going Schmidt, 57, ought to know. He is the managing partner of New York-based J.H. Whitney & Co., one of the largest, oldest and most successful venture capital companies in the U.S. It was set up in 1946 with \$10 million of initial capital by John Hay (Jock) Whitney, the 66-year-old horse breeder, former Ambassador to Britain and onetime publisher of the late, departed New York *Herald Tribune*, who today may be worth \$400 million or more. The Whitney firm got in early on such deals as Memorex, General Signal, Minute Maid, Corinthian Broadcasting, Spencer Chemical, Transcontinental Gas Pipeline and Global Marine.

According to Benno Schmidt, there is no shortage of venture capital. There's a shortage of genuine entrepreneurs. "It is almost easier to raise venture capital these days than to raise money for anything else," he says. What is scarce is the supply of promising entrepreneurs with promising ideas for building companies.

"The rub in this business is that there just aren't very many men around like Kenny Spencer [of Spencer Chemical, now part of Gulf Oil] and Larry Spitters [of Memorex]. So venture firms must attempt to succeed by backing men who are something less than entrepreneurial geniuses."

In short, if the money men turn you down, it's probably because you and your idea are lousy. But how do smart money men decide whether you are really a promising entrepreneur or not?

"It's all the attributes that separate any outstanding man from the average man," says Schmidt. "Keen intellect, stamina, the ability to attract and move people, sort out ideas and avoid wasting time on ancillary or auxiliary matters."

A man's idea counts, too, of course, says Benno Schmidt. "But ideas are a dime a dozen. What impressed me about men like Spitters and Spencer was that I could see they had the staying power to see their ideas through."

In the end, Schmidt concedes, the venture capitalist must make up his mind largely through a process of intuitive reasoning, based on his experience in backing other companies. That means he is sometimes going to make mistakes, turning down good men and backing poor ones. Schmidt himself freely admits that the process isn't infallible even for old hands like himself.

"At least half of the things we've done have not been, in hindsight, what I would call good investments," concedes Schmidt. "That doesn't mean that we lost everything, but it does mean that we had to settle for a loss or, at best, very little gain."

"You are all right as long as your successes do much better than your failures do badly," Schmidt says, and he turns to baseball for an analogy. Babe Ruth, Mickey Mantle and other home-run hitters had a tendency to strike out frequently, but their heavy slugging more than offset that. "In our business, too," says Schmidt, "the home runs are usually so much more productive that you don't worry too much about a lot of strikeouts."

Schmidt stops short of revealing the actual profits J.H. Whitney has earned on investments like Memorex and Spencer Chemical. But he emphasizes that the prospective gains must be huge to justify the risks. "Today you can put your money into reasonably sound securities with a 10% annual return," he points out. "Taking into consideration the added risk in venture capital, you ought not be in the business if you can't achieve at least an average 20%-a-year return." After balancing the home runs against the strikeouts, a venture firm, he suggests, should be able at least to double its money every four years. Not an easy goal. Few have achieved it.

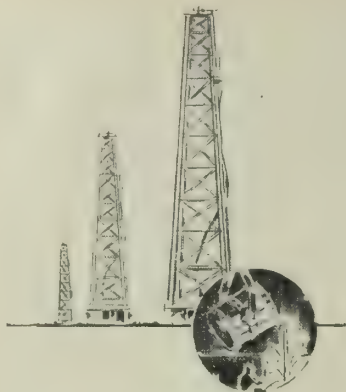


Schmidt of J.H. Whitney

Schmidt implies that J.H. Whitney, after allowing for several partners who have pulled out of the firm, has more than lived up to that standard. He refuses, however, to say exactly how much money the firm has made. Assuming J.H. Whitney made its goal of doubling capital every four years, present worth would be over \$600 million. But allowing for spinoffs of companies and withdrawals of capital over the years, outside sources put the firm's worth in the neighborhood of \$100 million.

Benno Schmidt was one of the six original partners when Jock Whitney established this remarkable firm just after World War II as the first purely venture capital outfit. Before the war Whitney had backed a number of entrepre-

The Money Men



NORTH AMERICAN ROYALTIES, INC.

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OIL AND GAS DIVISION
Minerals ownership,
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One of the nation's largest and most
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**John Blake thought
safety belts were
a drag.**



What's your excuse?



Advertising contributed for the public good



neurs on his own, including Technicolor in its infancy and the men who reorganized then tiny Freeport Sulphur.

Whitney's experience taught him the shortcomings of a private individual with multiple outside interests in trying to help a number of entrepreneurs through the rough early years of establishing brand-new companies. He decided he could improve both his own odds and those of the entrepreneurs he backed by assembling an organization. Such a group, as opposed to a single sugar daddy, could go beyond mere check-writing to assisting young companies on a professional, full-time basis.

Of course, there were no professional venture capitalists in those days. Benno Schmidt, a native Texan, worked his way simultaneously

through Texas U. and Texas U.'s law school during the Depression. Prior to World War II he was a teaching fellow at Harvard Law School pointed toward an academic career. He was an economics affairs counsel at the State Department when Whitney phoned in 1946 and asked to meet him.

"I thought he wanted to talk about the things I was active in—lend-lease settlements, foreign service problems and the like. Instead, he asked me if I'd consider becoming a partner in J.H. Whitney & Co. I liked law and teaching, but the idea of being the principal and not the attorney appealed to me even more." In 1959 Schmidt became the managing partner (though Whitney himself still holds the controlling interest).

There's no doubt Schmidt is very much in charge of the J.H. Whitney show. "Jock is wonderful because he doesn't second-guess you," he says. Like Whitney before him, Schmidt has gotten interested in public affairs where private capitalists have special know-how. Examples: investments in the worst slums of Brooklyn's Bedford-Stuyvesant area and plans to create a complete new miniature city on Welfare Island, right next to Manhattan.

Like many other venture capital outfits today, Schmidt's firm is concentrating many of its new investments in the data processing field. A company called Inforex, which is a peripheral manufacturer of data input equipment, has just gone public. Two other recent investments, Storage Technology and Mascor, Inc., are both involved in the computer business.

J.H. Whitney also branched out into real estate investments. It is a partner with the Chase Manhattan Bank and Hawaii's Amfac, Inc. in Esperance Land & Development Co. in the state of Western Australia. Esperance is converting some 1.5 million acres of bushland for agricultural use over a ten-year period. Through an arrangement with the Western Australian government, the partnership is selling half the land and keeping the rest.

Getting back to those of you who complain that the money men aren't sympathetic to your great concept, we can only pass on Benno Schmidt's advice: Blame not timid capitalists; blame yourself or your idea. ■

This announcement is under no circumstances to be construed as an offer to sell or as a solicitation of an offer to buy any of these securities. The offering is made only by the Prospectus.

NEW ISSUE

November 17, 1970



1,130,598 Shares

Federal National Mortgage Association

Common Stock

(Without Par Value)

Federal National Mortgage Association is offering to the holders of its Common Stock the right to subscribe for additional shares of Common Stock at the rate of one share for each 8 shares of Common Stock held of record at the close of business on November 12, 1970, as more fully set forth in the Prospectus.

The Subscription Offer will expire at 5:30 P.M., New York Time, on December 1, 1970.

Subscription Price \$44.25 Per Share

The Underwriters have agreed, subject to certain conditions, to purchase any unsubscribed shares and, both during and following the subscription period, may offer shares of Common Stock as set forth in the Prospectus.

Copies of the Prospectus may be obtained in any State in which this announcement is circulated from only such of the undersigned or other dealers or brokers as may lawfully offer these securities in such State.

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Battle for Survival

A few years ago, Arthur Collins of Collins Radio bet heavily on a new computer. Right now, he appears to be losing that bet.

ALMOST since its founding in 1931 by electronics wizard Arthur A. Collins, Dallas-based Collins Radio Co. has been a leader in advanced electronics. By the mid-Sixties, Collins was a very profitable, very big company with strong positions in both the military and commercial sides of avionics and telecommunications. That's when Arthur Collins, now 61, apparently decided the company should become a major force in computers, too. So he gave the green light to developing the massive C-System hardware-software program whose heart would be the C-8500 computer. So bright did Collins Radio's future seem that several companies, including Texas millionaire H. Ross Perot's Electronic Data Systems, tried to acquire it.

Today Collins Radio is in trouble. Major decisions of just a few years ago, which were made when both the company and the economy were in a strong upswing, have now gone sour. Collins is in a serious financial bind, with little prospect of early relief.

In the last two years, sales have dropped 22% to \$349 million in fiscal 1970 (through July 31), the lowest in five years. Yet since 1966, manufacturing floor space has jumped 44%; inventories have increased 67% (to \$138 million); and net plant investment has more than tripled (to \$149 million). Earnings fell from 1968's record \$4.44 a share to \$3.01 in 1969 to a mere 15 cents in 1970. And in the first quarter of the current fiscal year Collins lost 35 cents a share vs. an 18-cent profit in the year-earlier period.

How did Collins come upon such hard times? First, by gearing up for sales in the avionics market that didn't materialize. Second, by allowing its C-System to be a marketing dud. "Knowing the quality of Collins' work," says one industry leader, "I'd guess the C-System is a thing of beauty. But if you don't market aggressively, you don't make money. This historically has been a problem for Collins."

It has been a substantial problem, to judge from the deterioration in Collins' current position. Its short-term domestic borrowings jumped from \$24 million in 1968 to over \$100 million at the end of fiscal 1970, very close to the maximum \$104-million credit line that Collins' bankers have been willing to grant. And working capital for domestic operations fell to only \$66.4 million—perilously close to the \$65-million minimum imposed on the company by long-term lenders.

The C-System has caused much of Collins' trouble. Its research and development costs, though scattered over several product lines and therefore hard to isolate, total many millions. Collins' officials claim a potential market for the C-System of some \$200 million annually five years from now, but three years' revenues so far total only \$35 million. Says one industry expert, "Some IBM salesmen have that sort of record." Yet much of Collins' soaring manufacturing and engineering overhead is related to the burden of the C-System.

What's more, in sharp contrast to its previous policy of expensing all its research and development costs, Collins in fiscal 1969 began deferring virtually all its C-System R&D (as well as substantial avionics research for the Lockheed L-1011, itself a troubled project). The total of these and other R&D costs thus deferred by the end of fiscal 1970 was \$27.1 million, which, of course, has sharply boosted reported earnings. In fact, if Collins' R&D had been expensed in fiscal 1970 as it was in 1968, the company would have had to report a pretax loss of about \$5.20 a share.

Both Collins and its auditors, Ly-

brand, Ross Bros. & Montgomery, describe the change as "perfectly proper accounting practice," because much of the R&D involved will not generate income for years. But Lybrand's Ernest Wish adds that the rationale "relies heavily on the company's ability to recover [those R&D costs] out of future revenues." Wish further adds that he is satisfied with this potential ability. Not everyone is.

Why? Because building and selling such sophisticated computer systems is much different from what Collins has been doing. It simply lacks the experience, reputation and service organization of entrenched competitors. "IBM's equipment, for example," says one industry expert, "is no great shakes in terms of quality. But they have a thousand elves standing around to fix it when it fails. Collins doesn't." Adds an analyst acidly, "I thought it was sheer folly on their part to think that at this late date they could bust into the [big-time] computer business and still expect to make a market and to make profits."

Collins naturally disagrees with its detractors. The company claims improved marketing, confident creditors and adequate funds to meet all 1971 obligations. Indeed, its short-term lenders have agreed to extend the \$104-million credit line for another year, and earlier this year the bankers picked up \$20 million of Collins' commercial paper when the company could find no other buyers. Further, Collins just received an \$8.5-million C-System order for the McDonnell Douglas DC-10. "There is a misunderstanding among the 'experts' that we are competing with the likes of IBM and RCA," complains Collins Executive Vice President W. William Roodhouse, "and that isn't quite true. We look at the C-System from a communications standpoint. This isn't just another computer."

The distinction may make little real difference, however, for it appears that Collins has risked much to develop something that may not sell well or—more important—bring in revenues soon enough to get the financially strained company back on a firm footing. And Collins can expect little help from the depressed avionics market. It's easy, then, to suppose that reorganization or merger could be in store for Collins Radio. As distasteful as a merger might have been to proud Arthur Collins a few years back, today it might be his saving grace. ■

The C-System computer is at the heart of Collins' problems.



*This announcement is neither an offer to sell nor a solicitation of an offer to buy any of these Securities.
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\$500,000,000

American Telephone and Telegraph Company

\$150,000,000 Seven Year 7¾% Notes, due December 1, 1977

\$350,000,000 Thirty-Two Year 8.70% Debentures, due December 1, 2002

Interest payable June 1 and December 1

Prices

Notes 100⅔% and Accrued Interest
Debentures 100% and Accrued Interest

*Copies of the Prospectus may be obtained in any State from only such of the undersigned as may
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November 11, 1970.

Westinghouse growth report: Housing and community development market



"Two of the most urgent needs of people for the 1970s are better housing and better cities.

"The shortage of acceptable housing for medium and low income families is severe and threatens to get worse. Population growth will require whole new communities, cities in size, but with a far better environment than our present cities.

"Westinghouse is devoting major efforts to meet these needs.

"We are now a major producer of housing for medium and low income families. A wholly owned subsidiary, Urban Systems Development Corporation, manages this. Another subsidiary, C. W. Blakeslee and Sons, Inc., will build structural systems for higher income apartment buildings.

"We are developing several communities on large tracts of prime residential-recreational land. This is managed by Coral Ridge Properties, which we acquired in 1966. The original top management of Coral Ridge Properties, which developed about a third of Fort Lauderdale, is still on the job.

"We are making large productive contributions in these areas, thus creating a large portion of our business growth."

R. E. S.

President
Industry & Defense Products
October 30, 1970

Westinghouse Developing Florida City of 110,000

The incorporated city of Coral Springs, Fla., lies 9 miles from the Atlantic, next to a million acre Federal Wildlife Preserve, and in Broward County, one of the fastest growing in the United States. Coral Springs has 3,500 new residents and an approved long range development plan that is expected to bring the population to 110,000.

It is also expected to bring Westinghouse about \$180 million in land sales over 12 years, along with special opportunities for sales of electrical distribution equipment, lighting, appliances, etc. The buyers' building improvements will add at least \$600 million to community value.

In process of development since 1966, Coral Springs' 16 square miles are being graded to create a rolling terrain with 80 miles of lake and stream frontage. About 40% of the grading is complete, and about 25% of the roads.



These homes are part of a Coral Springs "laboratory" to test new Westinghouse ideas. One under test is a two-way communications system now being used for remote metering and appliance control. Eventually the system could connect houses with security services, health centers, programmed instruction courses, etc.

A fourth of the land has been sold to individuals and carefully screened builders. Home values range from \$30,000 to \$100,000. Architectural standards are enforced to maintain neighborhood values.

Though plans call for an eventual four golf courses and many other recreational facilities, this is not a resort city: it will have five elementary schools, two high schools and a 650-acre industrial park.



New Coral Springs Country Club has 18-hole championship course.

★ ★ ★

Two More Community Developments Started

Near Sebring, Fla., Westinghouse is developing Spring Lake, a residential community of 6,000 acres—lake and hill country. Land sales start soon.

Building improvements will add at least \$120 million to community value.

On the Caribbean island of Curacao, Westinghouse is developing a 2,600-acre resort community on three miles of oceanfront. Ownership is 80% Westinghouse, 20% local. A 250-room luxury resort hotel is now going up on the site.

Between them, the two developments are expected to bring Westinghouse some \$70 million in land sales.

New growth prospects:

Housing for Low-Medium Incomes—2,000 going up

Westinghouse has completed more than 1,000 low and medium income housing units in four cities, and has projects in various stages of completion in 13 others from Minneapolis to Jackson, Mississippi.

Westinghouse housing sales were zero in 1968, \$9 million in 1969, and will be about \$15 million this year. The 1973 goal is 7,000 completions, for about \$100 million in sales.

The market for low and medium income housing promises to stay strong—the shortage is severe, and financing under federal programs is a help.



Westinghouse-built low income housing project. Monthly payments for three bedrooms average about \$110.

Most builders find government supported housing unattractive because of delays, and the time consuming documentation required. Westinghouse advantages include extensive management experience in controlling very complicated projects; a complete in-house staff covering services from design to mortgage banking—the urban planning firm of Marcou, O'Leary and Associates is a subsidiary; new technology; and the staying power of a large, well-financed corporation.

Our rapid growth seems to demonstrate how effective a competitive, profit-motivated operation can be in dealing with "public" problems.

Florida Waterfront Development Potential: \$165 Million

Westinghouse-Coral Ridge is developing the Galt Ocean Mile, a strip of Florida oceanfront. The land now has a score of high-rise luxury hotels and apartment houses and 15,000 residents—the largest total-electric community in the country.

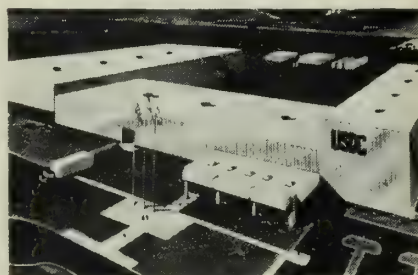
Our undeveloped land here, plus a Fort Lauderdale parcel overlooking the Intercoastal Waterway, would accommodate about 3,000 condominium apartments of the type customary for such locations. At prevailing prices—average \$55,000 per apartment—the total sales potential for Westinghouse comes to \$165 million.

(This is given simply as an indication of the potential of the land. Actually, some will be developed commercially, and may bring us land rent as well as construction sales.)



One of the oceanfront condominiums Westinghouse is building on the Galt Ocean Mile. Its sales total will be around \$9 million.

Westinghouse Building Two Housing Factories



Factory in Fredericksburg, Va. (above) will produce modular units for garden apartments and townhouses—1,450 a year. You can't tell the finished housing from conventionally built, but it's a better value. Second factory, near New Haven, will produce the Bison structural system of concrete panels, for apartment houses up to 30 stories. Capacity, 1,800 apartments a year.

★ ★ ★

FUTURE DEVELOPMENT NEAR SAN FRANCISCO

On the West Coast, Westinghouse has joined with one of the region's most experienced developers, Deane & Deane, Inc., through a joint venture. Deane & Deane will develop 8,000 acres on Half Moon Bay, 15 miles south of San Francisco. A master land-use plan has been developed for the tract plus 20,000 acres surrounding. The plan is exceptional in its regard for human safety and protection of the natural environment, as well as for pleasant living.

You can be sure...if it's Westinghouse



We have the answers.

Now, what was your question?

Introducing GT&E Information Systems:

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That's where we come in. GT&E Information Systems Inc.

We're a new subsidiary of General Telephone & Electronics. But we're old hands at solving information problems.

Wall Street's a good example. One of our companies, Ultronic Systems Corp., runs a 100,000-mile international stock and commodity quotation and information network that answers questions for brokers on six continents.

Another of our companies, Programming Methods, Inc., better known as P.M.I., has developed computer programs for credit card companies that do everything from

keeping a daily balance to stopping credit card thieves.

Every year our Chester Electronics Laboratories, Inc., helps almost half a million students get a better education with dial access information retrieval systems. The railroads are using our KarTrak™ Automatic Car Identification system to keep track of some two million freight cars. And our Data Services Division is the only remote computing organization operating on a national basis that offers four language processors, including APL.

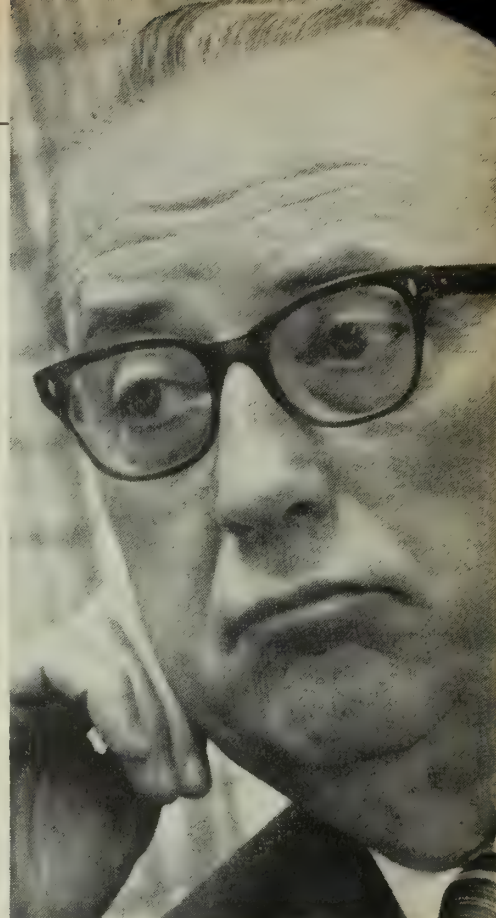
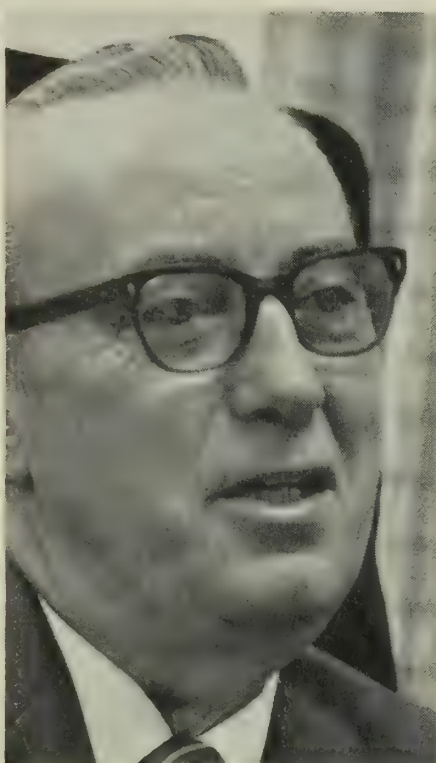
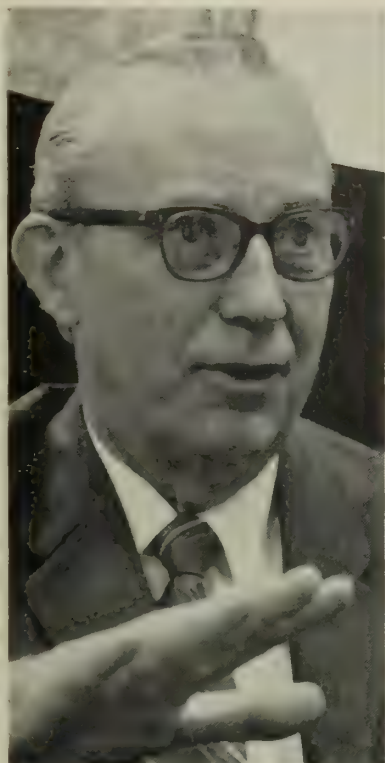
All that adds up to a lot of experience for a new company.

Experience in providing solutions, not just machines, for information problems. Experience in everything from offering a single remote terminal to running a complex facilities management operation. Experience that can help you get the information you need to answer your questions.

If you have any more questions about us, write to Mr. Leonard A. Muller, President, GT&E Information Systems Inc., Four Corporate Drive, White Plains, N.Y. 10604.

General Telephone & Electronics

Faces Behind the Figures



Osborn of the Bureau of Mines

The Honeymooner

CONSIDERING the furor over the subject ever since President Nixon fired Bureau of Mines Director John F. O'Leary early last spring, you might think that the Bureau's sole concern was the health and safety of the U.S. coal miner. Not so, says the Bureau's new head, hale, hearty former Penn State professor Elbert F. Osborn, 59: "The Bureau is right at the heart of a number of major problems—the energy shortage, pollution, the recycling of solid wastes."

Osborn concedes that the new mine health and safety law is the Bureau's first order of business, and that it will take some months before either the Bureau or the industry will be able to comply fully with the law. But comply they must: "If a mine can't comply," says Osborn bluntly, "it has to close up. The law leaves no option."

Osborn does not expect any widespread mine closings. "Some of the smaller mines originally indicated they would have to close," he says, "but they're having second thoughts." He doubts that the new law will impose any intolerable financial burdens, either:

"There will be some expenses," he says, "but the price of coal doubled last year, so these shouldn't have any major effect."

Mine safety aside, Osborn is pushing to develop new fossil fuel sources. He has written off atomic power as a major energy source for the immediate future, and he suggests that the shortage of miners and mining engineers will make it more difficult to open new coal mines than has generally been recognized, though in the long run coal offers the greatest promise. A far *quicker* solution, he feels, would be to improve methods of secondary oil recovery. "Normally, you can recover no more than 30% to 40% of the oil in any particular stratum. But with secondary recovery methods, you can increase that percentage. A five-point gain, I understand, would be the equal of the whole North Slope of Alaska."

The Bureau has already developed some promising new secondary recovery methods, but it needs funds for large-scale field experimentation. And the same goes for its project to convert coal into "synthetic" natural gas: The commercial feasibility of the project must still be proved out by a large-scale

pilot plant. "Our problem," says Osborn, "is not a lack of fuel, but a lack of planning."

The Bureau is also pushing nearly as hard on problems of waste and pollution. One of its projects involves the incineration of automobiles, another the recovery of metals from urban refuse, still another the pollution created by the internal-combustion engine.

Osborn is confident that the U.S. can solve its energy shortages relatively soon and cheaply; but he is far less confident about the problems of pollution. "That's going to cost a fabulous amount of money," he says, "at least if we want to get back to nice, clean streams with trout, and air as clear as Alaska's. Our ability to do so depends on the public outcry. If it slackens off, progress will too."

Osborn is enjoying his political hot seat. "First I worked for a foundation," he says, "then for Eastman Kodak in their research labs. So the only thing left was to find out what the Government was like. After three weeks here, I'm still on a honeymoon. But it's an exciting time to be at the Bureau, and even if I last only a couple of months, I'll never regret it." ■



Fuller, the Major Domer

Bucks, as in Buckminster

HIS OLD NICKNAME "Bucky" is more appropriate than ever these days. The visionary who went broke trying to sell the world on houses that hang from poles, automatic room dusters and waterless bathrooms will earn roughly \$500,000 this year.

R. Buckminster Fuller, the "poet of technology" who also invented—and capitalized on—the geodesic dome, was reluctant to discuss his recent riches with *FORBES* last month. The lump sums seemed to stick in his throat with the steak

he was munching for breakfast. He seemed embarrassed. Throughout his 75 years, Fuller rarely gave a second thought to earning a living, even after he had spent his wife's sizable inheritance on such questionable devices as a three-wheeled car. His life's mission, as he explains it, was to improve man's environment. Nothing else mattered. "I tried to make sense," said Fuller, "not money."

Yet, there he sat in a Louisville hotel suite waiting to lecture the world's first Industrialized Building Exposition & Congress. His fee: \$5,000, plus the steak, plus the

suite and the rest of his expenses.

Ironically, the people who are trying to make him wealthy—the students who read his books, the 50 or so groups he lectures each year and the businessmen he counsels—are paying for essentially the same ideas that Fuller couldn't give away during much of his life. He still has visions of a utopia where there are mass-produced houses that weigh 70 pounds each, recycled wastes (so sulphur, for example, could be extracted from smoke) and enough natural resources for every person. He preaches, in short, that man can do more with less—the very notion that inspired his first moneymaker, the geodesic dome that shelters the largest possible area with the least amount of materials. Since 1952 the 45 companies Fuller licensed have constructed 10,000 domes in 55 countries. His annual royalties: about \$100,000.

Although he doesn't enjoy talking about money, he doesn't mind taking it. He has raised his lecture fee tenfold in eight years. "People ought to pay for important things," says Fuller. "Furthermore, I know how to spend my money. Every dollar goes to my research staff at Southern Illinois University, kids I'm putting through college and scientists and architects I have set up in business. I get \$10 of value from every \$1 I spend."

If that is so, why didn't Fuller try to do more by earning more, perhaps by manufacturing his own domes? He did try to make money early in his life, said Fuller, but all the efforts "took me off course and everything fell apart." He added, only half joking: "At any point, I could have made millions simply by selling people what they think they want—gold-plated diapers and Plexiglas steeples with flashing lights, house doors decorated with fake roses in the shape of good-luck horseshoes—and other stuff like that. My company would have been called Obnoxico. But its success would have destroyed me. I would have begun taking it seriously, and I would have lost my sense of humor and my sense of purpose. You see, I'm not interested in what people want; I'm only interested in what they need."

So, there you have a classic happy ending, where virtue, quite literally, pays off. ■

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NEW ISSUE

November 6, 1970

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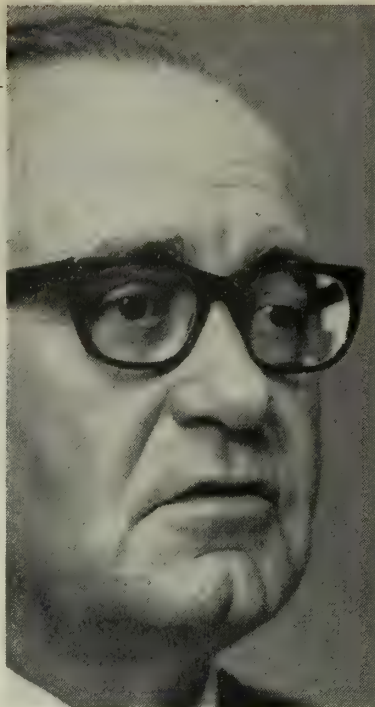
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Faces Behind the Figures

Lots of News—All Bad

TWICE A YEAR President Benjamin F. Biaggini of Southern Pacific Co., the holding company parent of Southern Pacific Railroad, comes East from his San Francisco headquarters to talk to transportation analysts on Wall Street. On most of his visits, Biaggini has welcome news to report, because the SP is one of the richest railroads in the world. Last month Biaggini's appearance at Manhattan's Bankers Club came only a few days after the Interstate Commerce Commission announced the railroad could raise rates by 8%. Good news for the SP? No. The very day Biaggini spoke, news came of the recommendation by the President's Emergency Panel on Rail Labor Disputes that wage increases be granted totaling 32.5% over three years. Such increases, said Biaggini, applied to all SP employees, would add \$170 million to its labor bill.

Against this added cost, said Biaggini, the recently granted freight rate increase would bring in \$70 million to \$75 million annually. Bi-



Biaggini of Southern Pacific

aggini said bluntly that the railroads will have to go back to the Interstate Commerce Commission for a further 7% rate increase.

In the matter of attracting capital, SP Treasurer Robert J. McLean

told the analysts that the SP and other roads would have to sell long-term bonds, after almost ten years of equipment certificate financing. Such a prospect calls for a healthy railroad industry—which the U.S. does not currently have.

Both Biaggini and McLean acknowledged that Penn Central's troubles affect all other railroads—operationally when the troubled PC ties up equipment and delays shipments; and in the money market when PC-type disasters cast a pall over all railroad securities. An even more ominous aftereffect of Penn Central was being voiced in Washington the very day Biaggini was speaking in New York. "The Government should take over the railroads," said none other than George Meany, president of the AFL-CIO. Far from brushing off such talk as mere political maneuvering before hard bargaining over the new rail labor contracts, Ben Biaggini plans to answer Meany in a speech early this month at Washington's National Press Club. Biaggini's trips to the East are no longer the happy affairs they once were. ■

Yankee Traitor

IN 1968, Ezekiel A. Straw, then president of New Hampshire's Manchester Savings Bank, announced he planned to convert the mutual institution into a full-fledged commercial bank. For 2½ years savings bank associations, fearing a threat to their entrenched position in New Hampshire, battled Straw in the courts. But Straw won the court fight, and several weeks ago Manchester Savings became The Manchester Bank, the state's largest commercial bank, with assets of \$145 million.

"I'm known as the Benedict Arnold of mutual savings banks," laughs Straw, the 45-year-old, Dartmouth-educated scion of a wealthy New Hampshire banking family. His defection makes a lot of sense, however. In recent years, thanks largely to the boom in sports and tourism, New Hampshire has risen from stagnation to become one of the fastest-growing states, with an 18% population gain during the 1960s. But its commercial banking system is puny. It has consisted of scores of tiny, highly conservative institutions, many actually con-

trolled by mutual savings banks. "Every time a commercial borrower in this state needed any substantial amount of money, he had to go to Boston or New York," says Straw.

Equally compelling were the limitations of remaining a savings bank. Straw could make only fixed-interest, slow-turnover mortgage loans and could accept only interest-bearing savings deposits. When interest rates on deposits rose rapidly in recent years, his profits,

like those of all savings banks and savings & loan associations, were squeezed. Before the changeover, The Manchester Bank's mortgage loans were yielding only 6.28%, while it was paying 4% to regular depositors.

In the changeover, the former depositor-owners of the mutual savings bank receive voting trust certificates representing their proportionate share of the bank's \$15-million surplus account.

The voting trust owns 100% of a holding company which in turn owns all of the new bank's common shares. But the voting trustees themselves are the same individuals who were "corporators" of the old savings bank. Straw and other insiders, who now own no trust certificates, presumably will buy enough to keep effective control before the voting trust is dissolved during the next nine years. And New Hampshire gains a large, home-based commercial bank. Almost everybody should be happy.

Does Straw expect a rash of other savings bankers to follow suit? He's doubtful. "Anybody who tries it can expect one hell of a fight from the savings bank industry." ■

Straw of The Manchester Bank



exposing the numbers game

A number of advertising agencies are getting more and more enmeshed in the "Numbers Game" in their selection of selective media.

They are betting their clients' dollars on unprovable pass-along numbers and the dubious value of pass-along readers (see 1970 Fortune Study results showing that "80% of advertising response comes from 20% of a magazine's total audience—from primary readers").

"Selective" Magazines, such as FORBES, by definition are selective—but they can only *select* the people who *buy* them. No one can control who picks up a magazine second hand. Nor can they measure conclusively the degree to which secondhand readers read it.

What's our point?

Why do we care?

Because in this unmeasurable and unprovable area of "pass-along" readership, our principal competitor for your advertising dollars is Business Week—and it beats the heck out of us on Simmons' "measure" of the number of pass-along readers.

According to Simmons, Business Week has 6.78 people reading each copy of the magazine while FORBES has only 2.56 readers per copy. Stuff those numbers in your old (or new) computer and guess who comes out smelling like a rose. Oh sure, Simmons also shows that the average Business Week reader spends just 33 minutes reading it as compared with the 119 minutes an average reader spends with an issue of FORBES. But nobody we know of feeds that to their computer.

Now if you stack FORBES up against Business Week in the *provable* numbers—the audit circulations of those who *buy* the magazines and the costs per page per thousand of reaching *them*—it's quite a different story:

	Forbes	Business Week
ABC Average total paid circulation 6/30/70	627,035	670,632
Costs per page (B&W) per thousand	\$10.76	\$12.18

...or compare the two based on their number of Top Management subscribers according to the data in their latest subscriber studies:

	Forbes	Business Week
Top Management (39% each)	244,544	261,546
Costs per page (B&W) per thousand	\$27.60	\$31.24

We can't prove, of course, that a FORBES subscriber takes his FORBES more personally, or reads it more intensively, than the Business Week subscriber...but wouldn't the fact of our *low* pass-along tend to prove this point? If you take a magazine home or have it sent there, you only do it because *you* want to *read* it. If almost six other people see every copy, then it must be bucking around the office from in-basket to out-basket at a very fast clip.

Now we *like* Simmons. FORBES is mostly happy to be in Simmons. And we use Simmons figures every time we can make 'em "prove" we're better than the other guy.

But this numbers game on "pass-along" is murder for us when advertising agencies waive judgment and just wave numbers at the client.

Doesn't our point have some merit?

After all, what does the word "primary" mean anyway?

Look it up and you'll see what we mean.

Forbes: capitalist tool

Selling Too Soon

NINE YEARS AGO South African lawyer Mark Weinberg, 30, started London-based Abbey Life Assurance Co. on \$100,000 of capital. A few weeks ago, based on what International Telephone & Telegraph paid for half the company, Abbey was worth \$76 million. Is Weinberg rich? Not so. He is out of the company and out of a job, solvent but hardly rich.

But before concluding that ITT's Harold Geneen skinned Mark Weinberg, consider what happened in between. Weinberg's capital in starting Abbey was brains and ambition; friends put up almost all the first \$100,000. But Britain, unlike the U.S., lets life insurance companies sell policies linked to equity investments. By doing so, British insurers can counter a prime U.S. argument against life insurance—that it pays off in fixed dollars with no inflation hedge. But British insurers were not really pushing equity-linked policies.

Weinberg saw the opening and leaped in. Result: Abbey's premiums have doubled or tripled



Insurance Entrepreneur Weinberg

nearly every year, and Abbey's assets zoomed from \$2 million to \$200 million. So far, so good.

In 1964, however, when the zooming was just starting, he made what certainly proved a mistake. He sold out for \$250,000 to a 50-50 partnership of ITT and Georgia In-

ternational, an Atlanta-based financial outfit. Weinberg agreed to stay and manage the company for \$33,000 a year. He felt he needed some outside backing, but clearly underestimated what he had.

In late October of this year ITT agreed to buy Georgia International's half for \$38 million. ITT now was the sole boss. So Weinberg quit, taking five top executives with him, and announced plans for another insurance company. He said he couldn't be his own boss at ITT.

The deal seems fine for ITT. Abbey made \$3.3 million in 1969 and should net \$3.6 million this year. Next year the projection is \$5.6 million. ITT also got entree to insurance markets on the Continent for another recent U.S. acquisition, Hartford Fire Insurance.

And Mark Weinberg? After paying off his original backers, he got a good piece of change, but nothing big, nowhere near what he might by holding on. Somewhat resignedly, Weinberg told FORBES: "I've come out with one capital asset—a knowledge of the business and some reputation for having done it." ■

If at First You Don't Succeed . . .

HOWARD A. (MICKY) NEWMAN, the new chairman of the Western Pacific Railroad, is the latest wheel-dealer to try to use a money-losing railroad as the base for a conglomerate. Is he dismayed by such examples as Penn Central and Northwest Industries? Not Micky Newman. Eye-to-eye in his Park Avenue office he'll tell you plain he has made some intelligent investments and will make more. "I stick to values, and I've never overpaid for a property."

Micky Newman insists he didn't

overpay for Western Pacific, of which he became chairman this summer after resigning as chairman of Chicago's Northwest Industries last December. Western Pacific, a "bridge line" with a limited 922-mile route from San Francisco to Salt Lake City, lost 37 cents a share in 1969 and a burdening \$2.7 million in this year's first quarter. But Newman feels he can build on it, much as a child builds with blocks.

He had done it before. His father set him up in 1956 at age 34 as president of Philadelphia & Reading Corp., an ailing \$40-million-a-year anthracite coal produc-

er, and Newman transformed it into a \$327-million-a-year hodgepodge of such companies as Fruit of the Loom, Blue Ridge (work clothes), Acme Boot and Lone Star Steel.

A huge success? No. Newman sold out to Northwest Industries, where he ran into a personality as strong as his own, Chief Executive Ben Heineman. Heineman rebuffed a take-over bid by Newman and his father. So Newman resigned. But he and his family held on to its prior preferred shares (about 150,000) while picking up a 10% stock interest in Western Pacific.

"Now we want to clear the decks, get all the bad news out of the way," Newman says. To get the WP back on a profitable track, he chose as president famed railroader and former Penn Central Vice Chairman Alfred E. Perlman, 68; and he plans to sell WP's rail portfolio, worth \$10 million last June (vs. \$22 million 18 months ago). But Newman looks away from railroading for growth. Eventually, he apparently hopes to sell the road itself, using the proceeds and tax loss for acquisitions. If at first you don't succeed. . . . ■

Newman of Western Pacific



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NEW ISSUE

November 11, 1970



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What Kind of Bike D'Ya Ride?

Adults seem to be going back to the bicycle again, but the U.S. bike makers aren't exactly cheering,

EVERY WORK DAY Eugene A. Sloane, 54, public relations director of the Midwest Stock Exchange, makes the 25-mile round trip from his Evanston, Ill. home to his Chicago office aboard a 15-speed Schwinn lightweight bicycle. The bike trip, he explains, takes the same hour it does by car and commuter train, saves him \$5 a week and keeps him very much in shape.

Sloane, of course, has an ax to grind: He is also author of *The Complete Book of Bicycling*, just published. Even so, there may soon be thousands of executives—many of whom now pedal only exercycles—riding behind him. Just two years ago, sales of adult bikes—usually 26-inch lightweights with three to ten speeds—were only 10% of a 7-million-unit market. This year they are up by at least 20%. Their popularity has reversed the recent industry sales trend toward banana-seat, high-rise bikes for kids. Says Stewart J. Meyers, publisher of *American Bicyclist & Motorcyclist*, "Dealers who were overstocked with lightweights in February are now sold out. Factories are going all-out to make them and U.S. buyers are scouring the world for them."

As recently as 1963, imports held 30% of the market. Then the high-rise bike, invented by some kids in San Diego, became popular overnight. U.S. manufacturers seized on the high-rise trend, came out with a line of hot-rod-like designs, and squeezed imports out of all but 16% of the market. This year lightweights from England, Japan, France and West Germany are flooding the country again, and they may well end up with around 30% of a \$400-million market. (Bikes remain popular overseas, too. The recent Paris auto show featured as many bicycles as cars.) So U.S. bike makers, who have always been hard put to make any money in competition with imports, are again facing an import surge.

The U.S. manufacturers have a lot to lose. They sold 5.9 million bikes in the record year of 1968, 5 million even in an off year for consumer buying like 1969. Most were produced by eight mainly family-oriented manufacturers: Murray Ohio Manufacturing Co., the volume leader; Schwinn Bicycles, still privately owned and running neck and neck with Huffman Manufacturing for the No. Two position; big, enterprising AMF Inc., which imports its Hercules line, including lightweights from Raleigh In-



La Différence. The adult revolution in two-wheelers has one real bright spot. It promises a heady profit margin. High-rise, banana-seat models for kids usually retail for about \$49, but the newly popular precision-made lightweights can cost \$300 or even more.



dustries of England; Columbia Bicycles, now part of Cleveland's MTD Products; H.P. Synder Mfg., Chain Bike and Stelber Industries.

The surge of adult buying caught most manufacturers off guard, and they are tooling up factories for lightweight production and putting retailers on allocations. Schwinn is doubling its lightweight production to 45% of its output. Stelber is shifting from 2% to 20%. But they're also asking themselves whether the surge in adult interest isn't only a short-lived fad.

Passing Fancy?

Some serious observers, including William Quinn, editor of *Bicycle Journal*, believe adults are back on bicycles to stay. The nationwide concern about pollution, the desire of the middle-aged to stay healthy and the creation of hundreds of bikeways across the nation are pushing the trend along. Says Sloane: "So many of us have a Kafkaesque feeling that we have no power over anything in modern society. Bicycling offers a new feeling of independence."

"We don't think it's a passing fancy," says Ray Burch, Schwinn's vice president of marketing. "If there's a swing to bikes by only 5% of the adults in the country, sales could more than double to 16 million." Stelber Industries' President Jack Berkowitz agrees, and to insure a supply of lightweights, Stelber recently acquired Scheuer-Shapiro, one of the largest importers of European bicycles.

Riding the new wave is another large importer, Raleigh Industries of America. Raleigh planned a 15% increase in its U.S. business this year, has been getting 20%. "We had a hard time meeting demand," says William Quigley, vice president for operations. "What's important is that the growth is holding."

William Hannon, president of Murray Ohio, the biggest producer, refuses to take the new trend seriously. As of Sept. 1, he figures, lightweights had stolen only 4% of total sales away from middleweight and high-rise bicycles. "The key thing is what the kids will want," says Hannon. "Seventy per cent of the bike market still remains in high-risers, with most of them going to kids."

The possibility exists that the kids have taken up the lead of their parents. "I was selling lightweights to adult couples in May," says John Coulter, operator of a bike specialty shop in Fairfield, Conn. "Now the parents want lightweights for their kids for Christmas. I can't get them." If Coulter's experience is typical—and there is reason to think that it is—it'll be a whole new bike race. ■



Eglise de Lauze-Vaussais

Maurice Utrillo

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STOCK ANALYSIS

By Heinz H. Biel



Twenty Years

IN THE FALL of 1950 I received a telephone call from Malcolm Forbes. He asked me whether I would like to write a regular column for FORBES, of which he was then the associate publisher. I had to confess that I was not very familiar with this publication, which at that time was not considered the MUST reading in Wall Street that it has since become.

Malcolm was a good persuader. The monetary compensation, he said, could only be a token, but being a columnist for FORBES would give me public exposure and prestige. After all, Lucien Hooper had done it for years with great success. He also promised that I would be free to write as I wished without being subject to editorial pressures or corrections, a promise which has been kept. I still don't know why Malcolm came to me; I was then a very junior partner in a small stock brokerage firm. In any event, I consented and my first contribution appeared Dec. 1, 1950.

Twenty years is a long time by any standard. When I began I was in my forties, and I can't remember how many times the picture at the top of this page had to be changed as the years went by. Now I belong to the old generation which sometimes finds it difficult not only to keep up with new industrial technologies, but also to understand the modern investment philosophy of my younger colleagues.

Weigh Every Word

Having to meet a deadline twice a month is not pure joy. There are times when it becomes a chore to produce an article which subscribers should find interesting, informative and, perhaps, helpful. More than once I have asked myself why I submit myself to the bimonthly ordeal of trying not to make a fool of myself in public. However, over the years I came to value the discipline of having to think clearly, reach conclusions and express myself as unambiguously as possible. One also becomes aware of a responsibility to a very large readership, many of whom have come to trust your judgment. You learn to weigh every word in order not to be misunderstood and not to mislead anyone. You also have

Mr. Biel is a senior vice president of the New York Stock Exchange firm of Havenfield Corp.

to be careful not to offend the readers' political, social or economic sensibilities without, however, avoiding the issues or being wishy-washy.

As we know all too well, there are occasional long stretches of time when one would like to close up shop and go away for a year or so. How often and with how many variations can you say that you don't like what is going on in the stock market, that investors should be extra-cautious and that traders better pull in their horns. Not only does this tend to make dull and repetitious reading, but most people are optimists and they think the columnist is talking the market down.

Public interest in investing has grown enormously in the past 20 years. It is indicative that the circulation of FORBES increased more than six-fold during this period—from around 100,000 to over 625,000 at present. In 1950 the stock market was just beginning to emerge from the doldrums of the late Forties. Despite the Korean War, which looked rather ugly at the time, the DJI finally reached a new high at 235 towards the end of that year. This was the origin of the great bull market of the 1950s and 1960s. It had taken two decades just to get back to the level of 1930 and it required another four years to top the 1929 peak of 386 in the Dow.

Even though there have been many anxious and unprofitable periods during the past two decades, particularly the last two years, it is obvious that the holder of good common stocks has fared quite well. With an appreciation of about 230% even in the somewhat stodgy DJI, he beat inflation by a comfortable margin and earned a fair return. On the other hand, the experience of the ultraconservative investor who bought bonds is almost too gruesome to relate. One example should suffice: In 1950, the New Jersey Bell Telephone Co. offered 2½% 40-year debentures (rated triple A) at 102½. Recently these bonds have been selling below 50. Need more be said?

Trying to fathom the vagaries of the market and selecting stocks which serve the investor well will remain a continuing challenge, and I look forward to it. Meanwhile, I'll begin my 21st year at FORBES with a vacation and I'll skip the next column. ■

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TECHNICIAN'S PERSPECTIVE

By John W. Schulz



1970—Year Of Transition

FOR THE PAST SEVERAL MONTHS, this column has been stubborn on two points: 1) that a bear market ended at last May's panic lows, and 2) that a lot of base-building would be necessary, technically speaking, to provide a firm foundation for a new bull market. At last, however, in wrapping up my article for the Nov. 15 issue of FORBES, I felt compelled to say that this new long-term base structure should be about complete. If I am right, the time is here for even the most conservative common stock investor to become more enterprising.

Of course, I can't *prove* to you that I'm right. But it seems pretty plain to me that the chain of events ever since the start of 1970 has grown steadily stronger in support of rising prices. Perhaps the best way to sum it up is to emphasize the contrast with 1969. Starting just about two years ago, federal monetary and fiscal policies—to my mind, chief determinants of the stock market's major trend—were shifting course for the express purpose of disinflating the economy and, along with it, the overall level of common stock prices.

Then, quite early this year, monetary policy departed from acute restraint and turned in the direction of moderate ease. Though this switch was clearly apparent, investors remained skeptical and, last spring, panicked in the mistaken notion that a new credit squeeze was in the making and that a financial crisis, complete with a wave of major bankruptcies and a deep downturn in business generally, was imminent.

These fears were allayed during the summer as investors came to their senses and realized that the Federal Reserve Board had both the determination and the ability to forestall a collapse of the money market. Quite logically, the major stock price averages recovered just about all the ground lost in the preceding panic. But when, by early October, the Dow Jones industrials had climbed back into the 780-790 range, many investors started to worry all over again, this time lest the economy refuse to pull out of its recession even after the end of the General Motors strike—mainly,

perhaps, for lack of adequate stimulus from Washington.

Since then, however—and especially since Election Day—the Administration has been stressing its determination to reduce joblessness as close as possible to the "full employment" level by mid-1972, in time, one may pardonably suspect, for the next Presidential election. To achieve this goal, the economy would have to expand from current levels at rates approaching boom proportions, and many observers question that things will or should get that hot.

But if the objective is to be merely approximated, fiscal and monetary policy may have to remain supportive during most of 1971, which could scarcely be bad for common stock prices. And it will probably be at least six to nine months before there could be convincing evidence that the effort might be unsuccessful. So, for much of the coming year, the thrust of power should favor higher stock prices in about the same way that it made for lower stock prices in 1969.

An Uptrend in '71

Seen in this perspective, 1970 was a year of transition for the stock market, from major downtrend to major uptrend. To the technical analyst, this sort of transition is represented by the base-building process. If you look at this process on the 1970 chart of the Dow, you can easily recognize the unfolding pattern of what looks like a typical "inverted head-and-shoulders" base. The left shoulder materialized between, roughly, Dow 740 and 800 during January-April; the head, in the May-August period, between 740 and 630; and the right shoulder, in the 740-790 range since September.

With support from the decisive power center, it seems necessary to assume that the next significant swing in stock prices will complete this base structure by carrying the Dow into the 800-850 range. According to almost any technical standard, it would then be possible to envision major-trend highs near, even above, 1000. It might take more than a year before these projections could be realized, but even if they are only approached in 1971, good percentage gains should accrue for a majority of common stocks. ■

Mr. Schulz is a partner in the New York Stock Exchange firm of Abraham & Co.

WALL STREET VIEW

By Charles Rolo



Pollution Of The Economy

ALLOW ME to climb on a soapbox and say a few words about a form of pollution no less dangerous to the general welfare than pollution of the environment. I refer to pollution of the economy through wage escalation.

It has surely not escaped readers of *FORBES* that for some time organized labor has simultaneously contributed to inflation and demanded immunity from it. Not only have union negotiators held out for settlements which are patently inflationary, but they have often built into them provisions for automatic wage adjustments geared to rises in the cost of living. Thus we have a cozy situation where the people helping to create inflation are making sure that someone else bears the burden of it.

The battle against "demand pull" inflationary forces has, temporarily at least, been won. One clearcut indication of this is the low level of plant utilization (76.2% of capacity in the third quarter). But "cost push" inflationary forces are still dangerously strong, and wage escalation is currently the most important of them. As Argus Research has so aptly observed: "The U.S. economy appears to be in the midst of a 'wage-wage spiral,' in which a big boost won by one union becomes the target for the next union involved in a bargaining situation. In major wage settlements in the first half of 1970, the average wage and benefit package amounted to an increase of 9.7% a year over the life of the contract. For the first year alone, however, the average wage-benefit increase was 14.6% compared with 10.6% in 1969."

The General Motors settlement is an ominous example of the wage-wage spiral at work. By removing any ceilings on cost-of-living wage boosts, it fully protects the auto workers against inflation, and at the same time it sets a highly inflationary target for future union negotiators to aim at. Among expiring contracts in 1971 are those in steel, and what the auto workers got, the steel workers will fight for.

Don't misunderstand me. I'm not suggesting that abuse of power is a sin confined to labor unions; we know it's one to which most of the human

race is prone. All too often industry's pricing policies have been determined by what the traffic would bear rather than by anti-inflationary piety, and in some of the professions, charges have soared at least as steeply as union wages. The issue is not one of comparative morality but of gritty economic realities, and it is a fact that the kind of wage escalation we have experienced is not only inflationary in itself, it also intensifies inflationary psychology throughout the nation. Thus the long-term implications of the GM settlement are not reassuring.

A Positive View

Over the near to intermediate term, the stock market should derive encouragement from the prospect of a pickup in economic activity in the early part of 1971. Monetary policy and the position of the federal budget are moderately expansionary, and there has recently been a further easing in short-term interest rates. The spurt in auto production following resolution of the GM strike will have a strong, if temporary, impact on the economy. The improvement in residential construction should continue. And steel users will be stockpiling against a possible strike next August.

On the negative side, fourth-quarter earnings reports, in many industries, are likely to make poor reading. But the market looks ahead, and on balance I see reason to believe that (allowing for periodic setbacks) it should be able to sustain a moderate upward bias, with rotating leadership, over the months to come. If this hypothesis is valid, a good many stocks should move higher over the intermediate term. I doubt, however, that a major bull market can get under way until it is clear that progressive pollution of the economy through wage escalation has been checked.

As a follow-up to my September column on CATV, I'd like to comment on a recent full-day conference on cable television in New York, organized by Quantum Science Corp. In a 54-page study of the industry (price tag: \$195), Quantum Science has made the following projections. From 1970 to 1980, the number of subscribers is expected to rise from 4.4 million to 28.5 million; subscriber fees

from \$264 million to \$2.2 billion; equipment sales from \$115 million to \$604 million. By 1980 advertising revenues, at present negligible, might amount to \$600 million and the industry might be deriving close to \$90 million from various services.

Here, stated dogmatically and in brief, are some of the tentative conclusions I derived from the conference. 1) No decisive action will be taken on the recent proposals made by the Federal Communications Commission until the seventh commissioner is appointed to that body. 2) The FCC will continue to feel its way cautiously. It remains acutely conscious of its dual obligation not to impede technological progress, which means enabling cable television to grow, and also to protect the broadcaster from "unfair" exploitation of his material by the cable operators. 3) There are numerous areas of uncertainty in the current regulations, and even the FCC doesn't have the answers.

4) The fight between broadcasters and CATV operators will be ferocious (they came close to exchanging blows at the conference). 5) For the foreseeable future, CATV will remain entertainment-oriented—the growth of ancillary services will be slow and the industry's "blue sky" communications possibilities probably won't be realized for more than a decade.

6) Successful management of CATV will call for the same talents as in broadcasting—entertainment flair combined with hard-headed business and financial savvy. 7) The CATV stocks—and this is just a wild guess—probably won't duplicate the history of a Xerox; they're more likely to act like a new breed of high-growth utilities subject to growing pains, but long term, that could be rewarding.

I commented on three CATV stocks in September, emphasizing that all of them must be regarded as highly speculative. Prefaced by the same *caveat*, here are some notes on another CATV company, *Cablecom-General* (14), traded on the Amex. The company serves about 110,000 subscribers, principally in Colorado and California. Start-up costs and other problems caused earnings for fiscal 1970 (ended Sept. 30) to decline sharply from the 44 cents per share reported in fiscal 1969. However, cash flow rose from 1969's \$1.26 a share to an estimated \$1.55. At about nine times estimated cash flow, the stock seems reasonably priced in relation to other CATV issues. The 6½% convertible debenture (a \$12.5-million issue, listed on the Amex) looks preferable to the common. It was recently selling at around 93 and is convertible into the common at about \$14.75 per share. ■

A guest columnist, Mr. Rolo is co-director of the Research Dept. of the NYSE firm of H. Hentz & Co.

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The Board of Directors of Phelps Dodge Corporation has declared a regular quarterly dividend of 52½¢ per share on its capital stock, payable December 10, 1970, to stockholders of record at the close of business on November 20, 1970.

R. D. BARNHART,
Treasurer.

New York, N. Y.
November 4, 1970

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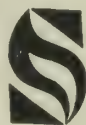
Birmingham, Alabama

Common Stock Dividend No. 127

A regular quarterly dividend of 35 cents per share has been declared on the Common Stock of Southern Natural Gas Company, payable December 14, 1970 to stockholders of record at the close of business on November 30, 1970.

PETER G. SMITH
Vice President and Secretary

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OVERSEAS COMMENTARY

By George J. Henry



Tomorrow's Banking Giants

SOME of the ambitious projects included in the plans of the European Common Market could evolve into a complete economic and commercial union within the Community.

Common currency is, of course, a *sine qua non* for this plan, as is a unification of company legislation and monopoly laws. If the Community is successful in bringing these plans to fruition, the frontiers of today will exist in the future as a political curiosity and as a reminder of a primitive era in the past. In the all-important flow of commerce and finance, as well as in the availability of pools of capital and labor, a new Utopian entity will exist.

The plans lead not only toward this greater integration, but call for an enlargement of the base of the Common Market as well. Negotiations are currently taking place to include the United Kingdom as well as other smaller but nonetheless important applicants for membership in the Community. The nature of the Community is thus not only likely to be more integrated and leading to the objective of a political entity, but the area of integration is likely to grow larger.

Banks fascinate me; I am fascinated by the role they play in the development of a country's finance and commerce. I have frequently referred to German banks as being a wonderful means of having an overall diversified investment in the entire German economy. However, German banks in certain respects are different from their American or British counterparts. They not only fulfill the function of deposit and savings banks through their numerous branches, they also act as investment and merchant bankers, as stockbrokers and issuing houses, and are large holders of equity capital for German industry.

It is easy to see that any enlargement of the Common Market, and any closer cooperation among its members, will benefit the entire banking systems of the countries concerned, and the German banks in particular. Greater use will be made of all normal commercial banking functions. The scope for merchant banking and investment banking will increase, and the industrial portfolios of German banks will gain in value in proportion

to the enhanced financial position of the business community.

Largeness is an obvious benefit in the banking business. During the last 15 years, we have seen bank merger after bank merger work out profitably in the U.S., and among the large, internationally prestigious Dutch banks. Even in England within the last few years mergers have taken place, in at least one case uniting two banks which previously were classified as among the "Big Five." The shares of many of these banks, though not readily available in the U.S., could be studied with a view to future appreciation.

No Commercial Barriers

The increased business for investment and merchant banking which would materialize from Common Market integration can probably be handled with existing facilities. Merchant banks, by their very nature, are geared to international operations. However, a revolution could well take place in branch banking, inasmuch as today's national frontiers can no longer serve as economic or commercial barriers. Thus branch banks with offices in the Common Market countries may well become the prime beneficiaries of this new order of the day.

This is no doubt the prime factor behind the recent agreement between the German Commerzbank and France's Crédit Lyonnais. Crédit Lyonnais is the second largest bank of France, but its ownership rests with the French government and, consequently, it has never been reviewed in this column. Commerzbank is publicly owned, is the third largest bank in Germany and its investment and banking functions are almost equally divided in importance. A merger, obviously, could not take place, as one is owned by government, but the scope envisaged for future cooperation is very great indeed. For all practical purposes, resources and know-how will be fully pooled to create a giant banking system serving France and Germany, currently the two most important members of the Common Market Community.

This step makes one wonder what the future holds for European banking in general. If the proposed schemes for unified laws and currency

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should materialize, there would be an obvious scope for mergers between large European banks, including British, if the enlargement of the Community should take place. The future could well hold unifications of such prestigious entities as, say, Banco da Roma, Westminster Bank, Amsterdam-Rotterdamsche Bank and Société Générale, just to speculate on one possibility. This is looking well into the future, but if my main suppositions of further unification and the enlargement of the Community should prove to be correct, this is a distinct probability. Perhaps it is too early to begin to study the investment possibilities of Europe's principal banks, especially in view of the fact that in most cases a purchase would entail the interest equalization tax. But it is a study which might prove very rewarding for use in the future.

Most of the banks concerned have shares which are traded on the national stock markets. In England the large banks, such as Westminster Bank, Lloyds Bank and Barclays Bank, enjoy a good market on the London Stock Exchange. And reasonably adequate financial information is available on these issues. Some of the large merchant banking houses have become publicly owned, and the shares of such companies as Hambros, Schroders and Brown Shipley can now be purchased on the open market.

Some of the French banks are still publicly held. In Belgium as well as in Holland leading banks are traded on the exchanges, though information on them is not readily available. More information is available on the Dutch banks than on the Belgian, French or Italian. The banks of these countries have broader functions than those of the English banks but none are as diverse as the German banks.

For the Future

For the more distant future one could go further afield. Sweden, for example, has two banks which are not only all-important for her domestic banking needs, but are also important in international banking. These are Svenska Handelsbank and Svenska Enskilda. The major Swiss banks—the Union Bank, the Crédit Suisse and Swiss Banking Corp.—are giants in every category. Their stocks are traded on the various Swiss stock exchanges, but it is never easy for American investors to buy into Swiss corporations.

The big problem as far as U.S. investors are concerned is that, with very few exceptions, these issues are not available in America as American-owned shares, and any new commitment would naturally include the interest equalization tax. ■

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The Funds

New Push for an Old Product

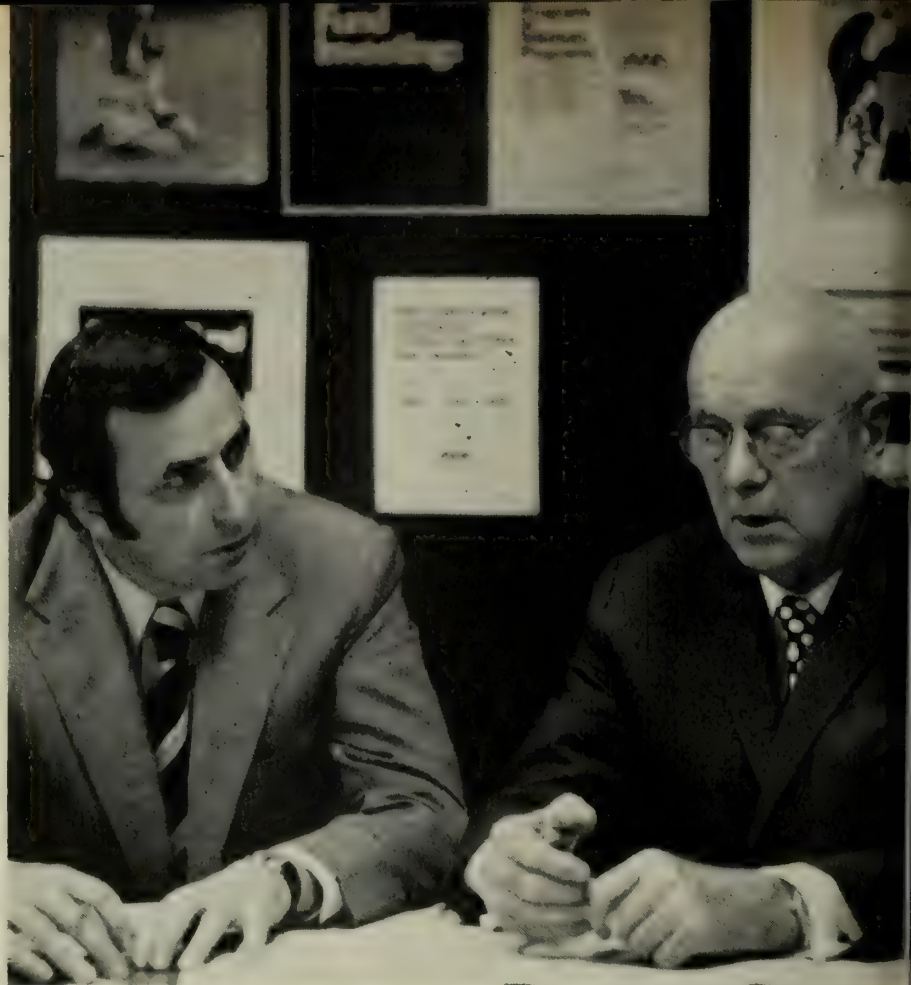
DENVER-BASED Founders Mutual Fund was founded 32 years ago by Lowell O. Collins, and remains unique to this day. The reason? Founders has no management contract and therefore can charge no management fee. A mutual fund without management? That's right: There is nothing to manage because its portfolio is fixed. So Founders makes do with a sales organization and a trustee, the First National Bank of Denver.

Founders operates on the "prudent-man rule" of dollar-cost averaging. As money comes in through the sale of shares, it is invested in equal dollar amounts in each of its 10 stocks. The theory is this: Through dollar averaging you get fewer shares when prices are high, more shares when prices are low and a better-than-average price on your long-term investment. Assuming, of course, the market trend over the years is up.

Collins started Founders when the U.S. was emerging from the depths of the Great Depression. He found U.S. investors irrational: "I witnessed all those people who wanted to buy stocks when the price was high and not when they were cheap. I wanted to help them prepare for the long term. If people were going to provide for the education of their children and for retirement, they were going to have to take a different approach to investment." Collins reasoned that if he invested in a broad list of carefully selected blue-chip stocks, the investor would achieve the maximum growth with a minimum of risk through diversification.

It took Collins years to convince people of this. "They felt there must be something wrong with the method of dollar-cost averaging—it was too easy." A sum of \$10,000 invested in 1939 would today be worth \$179,414. Since the first of the year, Founders is down only 6% while the average mutual fund is down 16%. Currently the fund has \$189 million in assets, and so far this year its sales have exceeded redemptions.

Collins feels the fund still serves its purpose. "The market was roaring in 1967-68," recalls Collins.



Brody of Downe

Collins of Founders

"And people were buying the conglomerates at 50 to 60 times earnings, and they got clobbered. The fund makes more sense to me than using a crystal ball. The powers on high haven't given me the ability to see the future, so dollar-cost investing eliminates the timing problem."

Last August, Collins, now 70, sold out. The buyer of Founders Mutual Depositor Corp.—which now owns three conventional funds as well as Founders—was an unconventional one, Downe Communications. It owns radio stations, CATV systems as well as consumer magazines with a total circulation of well over 50 million a month.

Downe's boss, Edward R. Downe, brought in Eugene Brody from the private investment company A.W. Jones to be chief executive officer of Founders Mutual Depositor Corp. Says Brody: "The principle of dollar-cost investing must work for the investor. So far it has worked for the past 30 years." Brody admits, however, that "Those stocks of the next 30 years may not be those of the past 30. And we've talked a lot about changing Founders' blue-chip portfolio—we have 17 losers out of 40." (Some blue chips like

U.S. Steel, du Pont, Air Reduction and Union Carbide look a bit faded to Brody now.)

Changes in the portfolio aside, Brody has big plans for FMDC. He has changed the logo and has begun advertising all four funds. Because of the Securities & Exchange Commission rulings, Brody will be limited in what his ads can say. They will be sold through FMDC's regular mutual fund channels—brokers and dealers, as well as its 1,000-man sales force.

Why should a publishing firm want a mutual fund? Says Brody: "Downe is different from most publishers." Unlike McGraw-Hill or Dun & Bradstreet, Downe is a mass merchandiser which can reach the public through ads in Downe publications like *Ladies' Home Journal* (7.5 million monthly circulation), *American Home* (3.6 million monthly) and *Family Weekly* (circulation 8 million weekly).

Do money management and merchandising mix? They won't have to. Downe and Founders will continue their respective operations, 2,000 miles apart. Founders will maintain its Denver base. Downe's remains in New York.

Deflated Football

THE BANKRUPTCY of First Devonshire, a member firm of the New York Stock Exchange, has big implications for mutual funds. So far they have gone unnoticed.

First Devonshire was, among other things, owner of Pendulum Investment Management Corp., adviser of a mutual fund, F-D Capital, assets \$1.2 million. As a result of the bankruptcy, Pendulum is no longer adviser, and F-D shareholders cannot redeem their shares. The fund cannot calculate its net asset value per share because it does not know how much of what First Devonshire owes it—for fund securities transactions—will be paid. The only hope is that the New York Stock Exchange will save the day.

This raises the whole question of

ownership of mutual fund management companies and the transfer of mutual funds from one management to another. The F-D fund has been something of a football. It has had six names and two changes in investment policy and four in management in its 14-year history. Were the fund's stockholders treated fairly when management was sold to First Devonshire in May 1970? Shouldn't there be more restrictions on the sale and transfer of mutual fund managements? These issues have already been raised in the lawsuits and proxy fights that blocked the sale by Dun & Bradstreet of its Moody's Advisors & Distributors, Inc. to Vance Sanders (FORBES, Oct. 15).

What's at stake is very basic: Does a management company have the right to sell its management contract to anyone it wants?

Good Packaging

ITS GAG NAME is "The Thundering Herd," and Merrill Lynch, Pierce, Fenner & Smith lived up to its name this fall, thundering through one of the most successful new underwritings in mutual fund history by raising \$128 million (after commissions) for Massachusetts Income Development Fund.

Moreover, Merrill Lynch did practically the entire job itself, accounting for some 95% of the offering while the other 54 underwriters sold a mere \$7 million worth. Given this proof of its ability to sell a brand-new fund, it took little foresight to predict that Merrill Lynch will now proceed to bring out its own fund, retaining not only sales and underwriting commissions but management fees too.

George S. Bissell, the new fund's president, says, "We are readying a second new fund, too—Massachusetts Capital Development Fund. We have had nothing to compete with the go-go type of speculative funds that have been popular in recent years. Our new capital fund will be more aggressive than our existing growth stock fund, which holds stocks of substantial quality."

The broader spread of funds will also help the trustees keep some of the money that has been flowing away from the Massachusetts group through redemptions in recent

years. People who invested in the growth fund when they were young, for example, will be able to switch (for a small fee) to the new income fund. Young people who inherit shares in the two older and more conservative funds will be able to switch into the new capital fund when it is launched.

The trustees of Massachusetts Investors made three shrewd decisions in bringing out the new fund, the third started by the group since 1924 when they launched the first U.S. open-end mutual fund. First, they chose Merrill Lynch as lead underwriter. Second, by bringing out an income fund now instead of a more speculative capital fund (to be launched in the future under the name Massachusetts Capital Development Fund), they launched the right fund at the right time, just as investors were shifting their portfolios toward bonds and quality stocks.

Finally, they knew how to take good advice on packaging. With the help of Merrill Lynch, they changed the new fund's name to Massachusetts Income Development Fund, with its implicit promise of growth and income, from far less salable MFS Income Fund.

Moral: There's plenty of investment money around for those who know how to go after it. ■

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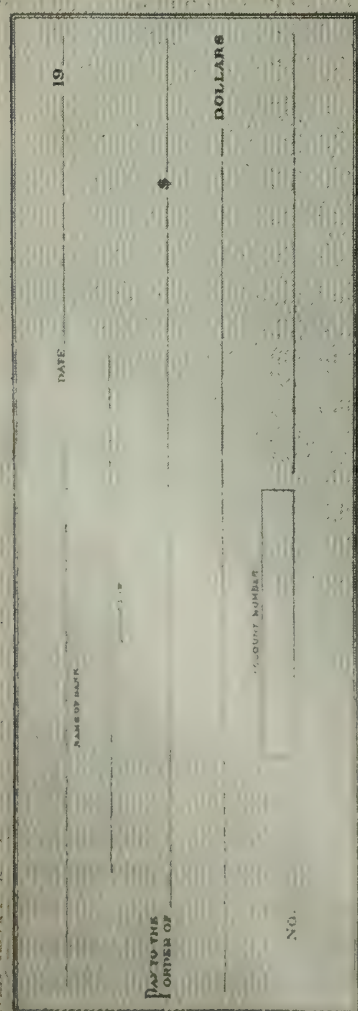
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DOLLARS

Trends & Tangents

(Continued from page 10)

Money Dispenser

Banks have always made it easy to put money in after banking hours with night depositories; now a California bank is making it easy to get your money out. A 24-hour cash dispensing machine, designed by American Standard's Mosler division to complement its closed-circuit-TV teller system, has been installed outside of the Surety National Bank in Encino, Calif. Qualified bank customers can make a \$50 withdrawal at any time by inserting a specially coded bank card in the machine.

The Electric Sportsman

Winter sports buffs who have trouble taking the cold need not wait for the St. Bernard with brandy this year. Instead, they can buy any of several battery-heated or ultra-insulated products designed specifically for skiing, hunting, hiking or, inevitably, shoveling snow. Battery-warmed mittens and socks have been around a while, but until now they weren't adapted for individual sports. Examples: mittens with a flap for the trigger finger; water-shedding buckskin outer mittens for skiing; a clip-on battery for ski boots. For the winter sailor, there is a vinyl foam coverall to warm the wearer naturally.

Spreading the Risk

When General George Olmstead, chairman of the International Bank of Washington, switched the bank's annual meeting from Beirut to London, it was because the Jordanian hijackings were still hot news. Last month, as the conference ended and 30 International Bank executives prepared to leave London, the General—a former Army espionage expert—still conscious of the air piracy, made them all fly back in groups of twos and threes.

Your Money or Your Life

Concern for the environment has obviously become a major national problem when the head of a major oil company proclaims publicly that ecological needs must take precedence even over economic growth. Said Gulf Oil President Bob R. Dorsey to a meeting of 300 students and faculty members at Columbia

University's Graduate School of Business: "The concept of a growing economy and the energy sources it needs seem to be on a collision course with the ecology of our environment. If so, something has to give—and in that case it would have to be the growing economy, or we'd all be committing mass suicide." He hopes, however, that controlled growth can ultimately "bring us to a spaceman economy with waste-recycling capabilities."

Last Year's Love

Scientific research has painted itself into a corner financially, says Dr. Eli Ginsberg, Columbia University manpower expert. Congress is withdrawing its support from major projects, the military is retreating before budget cuts and the Administration is unenthusiastic about research, to say the least. Dr. Ginsberg contends that scientific leaders aggravated the situation by concentrating in past years on getting large government grants instead of building a broad base for slower, stable research expansion. Now science must "compete in the political arena for its share of the ... resources." The size of this share, Dr. Ginsberg says, will depend on how skillfully the scientists get their case to the public.

High-Powered Teamwork

The latest in a series of jointly developed power plants is under construction near Centralia, Wash. Financed by eight public and private electric utilities, the plant will cost more than \$200 million and have a generating capacity of 1,400,000 kilowatts. The Centralia project is part of a joint development program that includes five other major projects in the Pacific Northwest. By participating, a company buys only the power share it needs in the large plant but still gets the economies of scale. The companies in Centralia, for example, own shares ranging in size from 2.5% to 47.5%.

Now You See It . . .

International Business Machines (FORBES, Nov. 1, p. 9) isn't the only top U.S. company deftly passing over a so-so profit showing. Minnesota Mining & Manufacturing announced its third-quarter results with a press release headed, "3-M Sales, Earnings at Record Highs." But the two-page release failed to mention that there had been a decline in pretax earnings. ■

(Continued from page 11)

A Disservice Done

SIR: You have done a disservice to the many, many well trained, conscientious government servants who do the correct things, despite Mr. Gilbert Fitzhugh's [head of Metropolitan Life] blanket criticism (*Fact & Comment, Oct. 1*).

—SAMUEL R. DOWS
Albany, Calif.

SIR: Your characterization is not appreciated. But what can you expect from an editor. They're all stupid clods.

—GEORGE W. GILBERT
Kensington, Md.

The Facts

SIR: In your Nov. 1 issue (*Money Men*), Mr. Harry Helmsley is quoted as saying the timing of the Chase Manhattan Real Estate Trust "was good. Mutual of New York, on the other hand, came out about a year and a half ago and invested significant portions of its funds at 8.5% long term, and it is doing poorly in the market as a result."

The facts are that MONY Mortgage Investors' securities were first offered on Apr. 14, 1970, the day the AT&T issue came to market. The subsequent collapse of the bond market forced postponement of many issues, including that of the Chase mortgage trust which reached the market on June 4, 1970. Secondly, no long-term commitments were made at 8%. Actually over \$75 million of long-term mortgage commitments have been issued with none under 10% and the average well over 10%. In practically every instance the commitments contain provision for additional participation in income over the interest rate.

—ALLEN L. LINDLEY
Chairman,
MONY Mortgage Investors
Boston, Mass.

With the "E" Please

SIR: Zsa Zsa's last name is spelled GABOR.

—SIMONE D. GOSSNER
New York, N.Y.

I still think the "e" is correct—MF.

Correction

In our story on H&R Block Inc. ("Paper Empire," Nov. 15) there appeared a serious typographical error. On page 20 we said: "Now, with Eastman Dillon, Union Securities & Co. heading the offering group, the brokers . . . are planning to sell another 600,000 of their own shares. . . ." The copy should have read: "The brothers are planning to sell." The stock in question belongs to the Bloch brothers and not to the underwriters—ED.

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THOUGHTS... ON THE BUSINESS OF LIFE

He that passeth a winter's day escapes an enemy.

—GEORGE HERBERT

Any use of a human being in which less is demanded of him and less is attributed to him than his full status is a degradation and a waste.

—NORBERT WIENER

All the discontented people I know are trying to be something they are not, to do something they cannot do.

—DAVID GRAYSON

It marks a big step in a man's development when he comes to realize that other men can be called in to help him do a better job than he can do alone.

—ANDREW CARNEGIE

No man so good, but another may be as good as he.

—THOMAS FULLER

If you would be accounted great by your contemporaries, be not too much greater than they.

—AMBROSE BIERCE

Gravity is the very essence of imposture; it not only mistakes other things, but is apt perpetually to mistake itself.

—ANTHONY SHAFTESBURY

As a madman is apt to think himself grown suddenly great, so he that grows suddenly great is apt to borrow a little from the madman.

—SAMUEL JOHNSON

I weigh the man, not his title; 'tis not the king's stamp can make the metal better.

—WILLIAM WYCHERLY

There is no work so rude that man may not exalt it; no work so impassive that he may not breathe a soul into it; no work so dull that he may not enliven it.

—HENRY GILES

Difficulty is the nurse of greatness.

—WILLIAM CULLEN BRYANT

B. C. FORBES

Your job is what you make it, big or little. No job, no situation, no position, no office can make a man great. It is not his station that makes a man, it is the man who makes his station. Napoleon was not great because he was dictator of Europe. He was great—in his own unique way—because he made his job great. The man or woman who humbly but deeply realizes that he or she has labored with the utmost faithfulness to attain a worthy end can never be a real failure. Pressing on toward "the mark for the prize," not the prize itself, is the thing.

Happiness and misery depend not upon how high up or low down you are—they depend not upon these, but on the direction in which you are tending.

—SAMUEL BUTLER

Blow your own horn loud. If you succeed, people will forgive your noise; if you fail, they'll forget it.

—WILLIAM FEATHER

Deep snow in winter; tall grain in summer.

—ESTONIAN PROVERB

A great man leaves clean work behind him, and requires no sweeper up of the chips.

—ELIZABETH BARRETT BROWNING

Great men never feel great; small men never feel small.

—CHINESE PROVERB

He is great who can do what he wishes; he is wise who wishes to do what he can.

—AUGUST IFFLAND

The game is the thing. The wins and losses are not the thing. One loses every time one wins, for he then has no game.

—L. RON HUBBARD

Distinction is the consequence, never the object, of a great mind.

—WASHINGTON ALLSTON

Gravity is a mysterious carriage of the body invented to conceal the want of mind.

—LA ROCHEFOUCAULD

You work that you may keep pace with the earth and the soul of the earth. For to be idle is to become a stranger unto the seasons, and step out of life's procession that marches in majesty and proud submission toward the infinite.

—KAHLIL GIBRAN

A Text...

Sent in by Mrs. John F. Baldwin, Vista, Calif. What's your favorite text? The Forbes Scrapbook of Thoughts on the Business of Life is presented to senders of texts used.

In all things shewing thyself a pattern of good works: in doctrine shewing uncorruptness, gravity, sincerity.

—TITUS 2:7

DECEMBER 15, 1970 / SEVENTY-FIVE CENTS

FORBES

**"What?
\$1 Billion
in Diapers?"**

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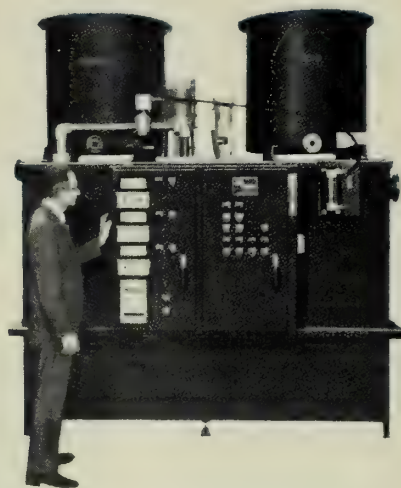
Johnnie Walker® Black Label 12 Year Old Blended Scotch Whisky, 86 & Proof. Bottled in Scotland.
Imported by Somerset Importers, Ltd., N.Y., N.Y. Prices may vary according to state and local taxes.



Christmas gifts, \$60 and under.

Johnnie Walker Black Label Six-Pack, about \$60. Sold separately, about \$10 a fifth.

Udylite introduces the clean water machine



If your waste water contains cyanide or hexavalent chromium, this new machine is made for you. It's the low-cost way to get governmental anti-pollution people off your back. And keep them off.

We call it the Udylite Packaged Destruction Unit. It can "kill" virtually 100% of the cyanide or hexavalent chromium in your discharge. Furthermore, it's the *only* machine on the market with the capacity and built-in safeguards to keep your discharge stream completely free of these two pollutants 100% of the time. So if your effluent is monitored, you never have to worry.

Yet it sells for only \$15,750... or even less, if you already have an in-plant pH control.

If you'll mail us the attached coupon, we'll send you the whole story about this new "clean water machine." And a free "Ecology" tie tack. Just to remind you of the one sure way to keep your effluent in the clear on water pollution... Udylite it!

Udylite

OXY METAL FINISHING GROUP
OCCIDENTAL PETROLEUM CORPORATION



Mr. James L. Clifford
The Udylite Corporation
Detroit, Michigan 48234

Sounds interesting! Please send me full details about your new Udylite clean water machine.



☐ I'd also like to wear one of your bright, new "Ecology" symbol tie tacks as evidence of my concern for our quality of life.

Name

Title

Company

Address

City

State

Zip

George wanted to build a 3,000 mile wide computer

That may sound crazy, but Dr. George Feeney's crazy like a fox. Because he got his way—that computer exists.

I'll never forget that day I walked into his office and he said: "I want a central file you can access from anywhere in the country—or Europe, or the whole world."

(Sure, George, who's going to lay a new transatlantic cable for us?)

"And" he continued, "I only want the customer to have to pay for a local call."

(That had to be a put-on, but he's the boss. Did he have any ideas on how we pull this off?)

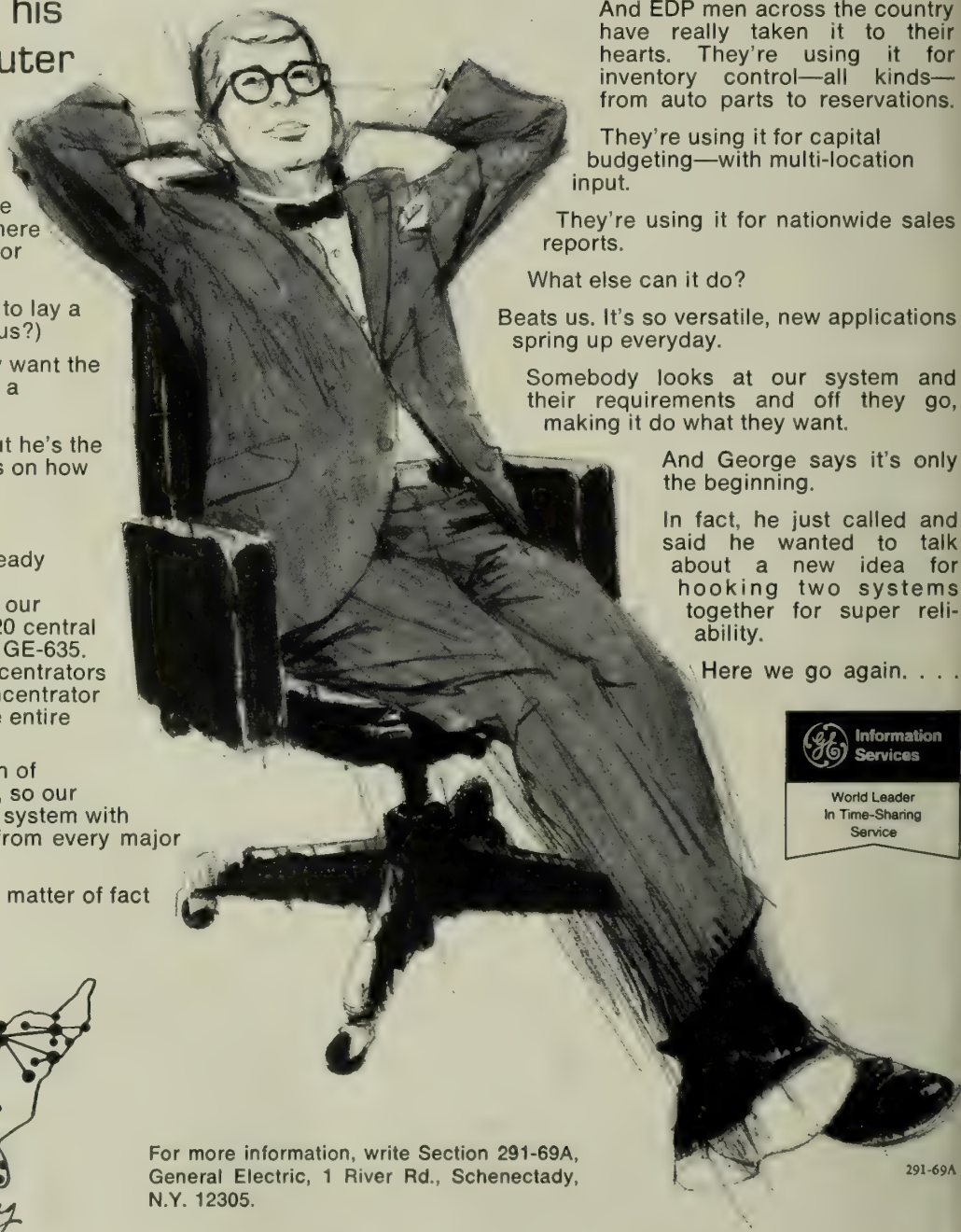
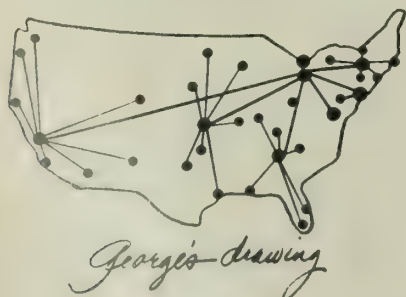
He did.

"Look," he said, "we've already developed the world's best communications system for our Mark II, using a GEPAC-4020 central concentrator hooked to the GE-635. Let's take the 8 remote concentrators that tie into that central concentrator and deploy them across the entire country.

Then, fan out a whole bunch of multiplexers from each one, so our customers can call a single system with a local telephone number from every major metropolitan area."

"You get it?", he said. As a matter of fact we didn't.

So he drew this diagram.



Then he said, "Do it. And use a satellite to get to Europe. It'll be the Time-sharing system that only EDP people can love."

We did. And they do.

Oh, yes — we call it General Electric Network Service.

And EDP men across the country have really taken it to their hearts. They're using it for inventory control—all kinds—from auto parts to reservations.

They're using it for capital budgeting—with multi-location input.

They're using it for nationwide sales reports.

What else can it do?

Beats us. It's so versatile, new applications spring up everyday.

Somebody looks at our system and their requirements and off they go, making it do what they want.

And George says it's only the beginning.

In fact, he just called and said he wanted to talk about a new idea for hooking two systems together for super reliability.

Here we go again. . . .



For more information, write Section 291-69A, General Electric, 1 River Rd., Schenectady, N.Y. 12305.

291-69A

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FORBES is published twice monthly by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at Post Office, New York, and at additional mailing offices. Subscription \$9.50 one year U.S.A. Copyright © 1970 Forbes Inc.



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That's when you decided to go for broke. You brought in that big job. "Over-kill." You had to empty out an office to have someplace to install it. Then you worked out at the gym at lunchtime to try to forget what all this was costing you. But that little meter going click, click, click all the time just wouldn't let you forget. And the day the copier jammed and the meter kept clicking—that was the last straw.

So where does a guy who's a little out of circulation go to meet a nice copier?

You don't go anywhere. Just stay in

your office and we'll bring you one.

We'll introduce you to a dependable, desk-top, dry electrostatic copier. One that will give you clean, sharp copies every time. One that can cope with bumper-to-bumper office traffic without breaking down. A copier that can copy either side of a two-sided original without getting see-through or picking up erasures and whitened-out spots.

A Pitney-Bowes Copier.

And we'll let you use it for several days, free.

If it sounds like Christmas has come a little early this year, it's only that we know the problem, and we know we have the solution. And this is the best way we know of to prove it to you.

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One is a light-duty, sheet-fed model, perfect if you make about a dozen copies a day. It can also turn out copies at the rate of 15 a minute, if you're ever in a rush.

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FOUNDED 1917 BY B. C. FORBES (1880-1954)

Side Lines

Inspiration on the Penn Central

WE ARE OFTEN ASKED: "Where does FORBES get its story ideas?" We always give the same answer: "From anywhere and everywhere." We thought you might like, as a for-example, an account of how and why we decided to feature the diaper business in this issue of FORBES.

The author of the story (and of the idea) was Special Reports Editor Kenneth Schwartz. We'll let Schwartz take it from there:

"I was riding to the office from my home in Princeton, N.J. and the fellow sitting next to me on the Penn Central train, an old acquaintance, a paper executive, was talking about the cover story in our Nov. 15 issue, the one about home furnishings.



"We got to talking about how FORBES does stories and how we try to focus on things that other people overlook. He said, 'Well, there are plenty of such things. Look at the fantastic growth of disposable diapers!' I said: 'Of what?'

"'Look,' he replied, 'nobody really knows what P&G has done with that product.' That's all he needed to say; the lights started flashing. I remembered a story I had done at FORBES back in 1963 that talked about P&G's invasion of the paper industry and how its rivals were perplexed. I reread the article and then checked our library for news stories about disposable diapers. Almost nothing!

"And yet here was a huge new market—as I studied the thing it looked more and more like a full \$1 billion—and the business public knew almost nothing about it."

To make a long story short, Schwartz and Researcher Nancy Jennings went to work and produced the article "The Great Diaper Rash," which begins on page 24 of this issue. The whole process, from Schwartz' commuting conversation to the closing of this well-researched piece of reporting took about three weeks. (In case you're curious, Schwartz has two young children, but they are both well past the diaper age; Nancy Jennings, though married, has none.)

Anyhow, that's how we get our articles: by using our eyes and our ears to look for things that others overlook. Why are we using our eyes and ears to look into things like diapers at a time when huge social problems overhang our society? Our answer is that if you think diapers are insignificant: 1) You haven't had any babies in the house lately, 2) You haven't been talking with the big paper companies, several of whom are kicking themselves very hard for letting an outsider, Procter & Gamble, beat them to this very rich market and 3) Our story goes into considerable detail on the ecological aspect of the development of this industry. ■

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Trends & Tangents

BUSINESS

Gas Rationing?

To insure that existing customers will have adequate supplies of natural gas this winter, some companies are instituting priority lists for new gas attachments. Peoples Gas in Chicago, for instance, now has 13,000 prospective customers on its waiting list, mainly private homes and apartment buildings. In other areas, such as New York, regulatory agencies are strongly urging gas companies to control the number of new customers they take on until more gas is available for their old customers.

Long Wait Brings Long Weekends

Though passed back in 1968, Public Law 90-363 will finally become effective next year making Washington's Birthday, Memorial Day, Columbus Day and Veterans' Day regular three-day weekends. Henceforth, the third Monday in February (the 15th in 1971) will be Washington's Birthday; the last Monday in May (the 31st in 1971) will be Memorial Day; while the second and fourth Mondays in October (the 11th and 25th in 1971) will be Columbus Day and Veterans' Day respectively. Previously, Labor Day (the first Monday in September) was the only official "vacationette" of the nine legal holidays. Christmas, New Year's Day, Independence Day and Thanksgiving remain unchanged.

The Big Time

Urethane this year will become the sixth plastic to pass the 1-billion-pound production mark. Although still only one-fifth the size of the polyethylene group, urethane production has reached a billion pounds in just 15 years and is expected to double again in the next four. Key to its growth is the versatility of urethane as an insulator in many forms, from building walls to refrigerators to winter clothing.

\$\$\$ for Your Thoughts

Traditionally, nearly 90% of corporate research and development results were filed and forgotten as unusable. But now a market for R&D is developing among compa-

nies both here and abroad, especially those that cannot afford their own extensive research. Even Russia is offering a few licenses abroad, apparently in hope of reciprocity. Some companies, such as National Cash Register, have created separate divisions to sell the technology that has broader uses than they can exploit. Others prefer to hire consultants and specialty organizations to handle the deals. One, Techni Research Associates Inc., publishes a gazette devoted to transfer information.

Burn, Bottle, Burn

A new plastic pop bottle developed by a subsidiary of Standard Oil of Ohio may ease the ecologists' drive to get people to take soda bottles back to the store. Called Barex 210, the new acrylonitrile-based bottle can be incinerated without producing noxious gases. Lighter than glass and almost unbreakable, it can be priced competitively with existing non-returnable glass bottles. Although both PepsiCo and Canada Dry have test-marketed the new bottles successfully, their commercial production is still said to be over a year away. ■

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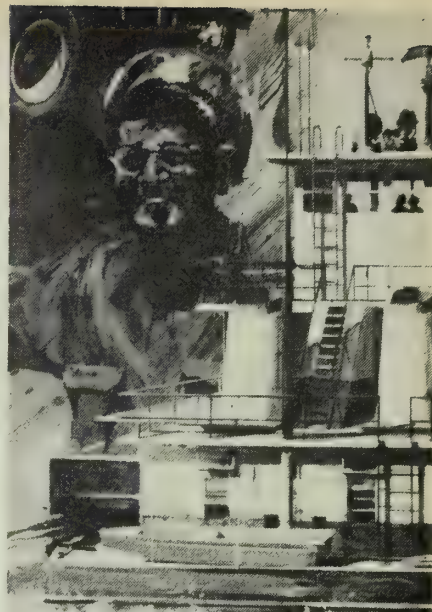
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See your Magnavox dealer (Yellow Pages).

Mistaken Identity

SIR: Your editorial ("Like the Elephant") of Nov. 15 would seem to prove that even the best of memories can be fallible. We were amazed to read that West Virginia Pulp & Paper Co. cut off FORBES' supply of paper "at the first moment it could legally do so when World War II controls were first eased." Our records show that our company had not been a supplier of FORBES at all during the 19-year period between 1929 and 1949. We did have a fine relationship with FORBES from 1917 to 1929, 12 years before Pearl Harbor. We resumed as a supplier in 1949, three years after World War II, and until January 1970 still provided some of your paper requirements.

—DAVID L. LUKE III
President,
Westvaco
New York, N.Y.

Assuming Westvaco's (formerly West Virginia Pulp & Paper Co.) records are correct, my apologies for an inexcusable case of mistaken identity—MSF.

An Expression of Thanks

SIR: I sincerely appreciate thoughtful support and profound understanding of my efforts as displayed in your editorial (FORBES, Nov. 15).

—JOHN N. MITCHELL
Attorney General,
Washington, D.C.

A Tall Order

SIR: In reading your recent article "Schooling for Profit" (FORBES, Nov. 1), it struck me that the guarantees made by Behavioral Research Laboratories were pretty optimistic. BRL says that they will return the full three-year charge (\$2,400 per student) for each student not at the national average in three years. If they are just able to raise the whole school system to the national average it will mean that half of the students will be above it and half will be below (the definition of average). That's a lot of money to return.

—JEFF HOWARD
High Point, N.C.

SIR: Your article referred to an outside firm that would measure the progress. How? Important considerations that affect individual academic performance but are difficult to measure are: social adjustment, an improved self-concept, a positive attitudinal change, an ability to handle responsibility and the capability of making decisions outside the realm of academia. Will these important aspects be measured?

—TERRY D. STIMSON
Counselor,
Adak High School
Adak, Alaska

(Continued on page 66)



Every executive should have one!

Here's the camera that's ideal for the executive because you can take perfect pictures *anywhere, anytime* regardless of the amount of light available. Any meeting where people can see each other has enough light for this amazing camera. The compact Olympus 35EC does it all automatically and electronically. And it uses standard 35mm film so you can get enlargements as big as you want. The electronic system is so sensitive you can automatically get a picture from candlelight (without any flash attachment). Under \$100. See a demonstration at your camera dealer.

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The camel doesn't have to worry where his next drink is coming from

But in a few years, you could end up a little thirsty unless you're walking around with two humps on your back.

A fresh glass of water for drinking.

A fresh pool of water for swimming.

Or a fresh tub of water for washing.

No matter how you use it, there is less and less of it around every year.

But, as bad as it sounds, the fresh water problem isn't a new one for man.

That's partly because there isn't a large amount of fresh water to go around in the first place. (Something like 97.2 percent of the earth's water is in the oceans.)

Only a small amount makes up the earth's rivers, lakes and streams.

And, unfortunately, every place that needs fresh water isn't next door to a river or lake or stream.

So, poor man, like his friend the

camel, has had to store his fresh water throughout history.

But unlike the camel, man's storage tanks don't come naturally.

So we made a business out of designing and building water storage tanks for man.

While we worked, we learned, too.

What did we learn?

One thing.

No two men have the same water storage problem. Each

tank has to be a little wider.

Or a little shorter.

Or a little taller than the next one.

So, over the past 50 years, we built our reputation on this one fact of human existence.

Now our men at the Plate and Welding division handle each new problem in a new way.

They'll work with your engineers or they'll do the whole job themselves.

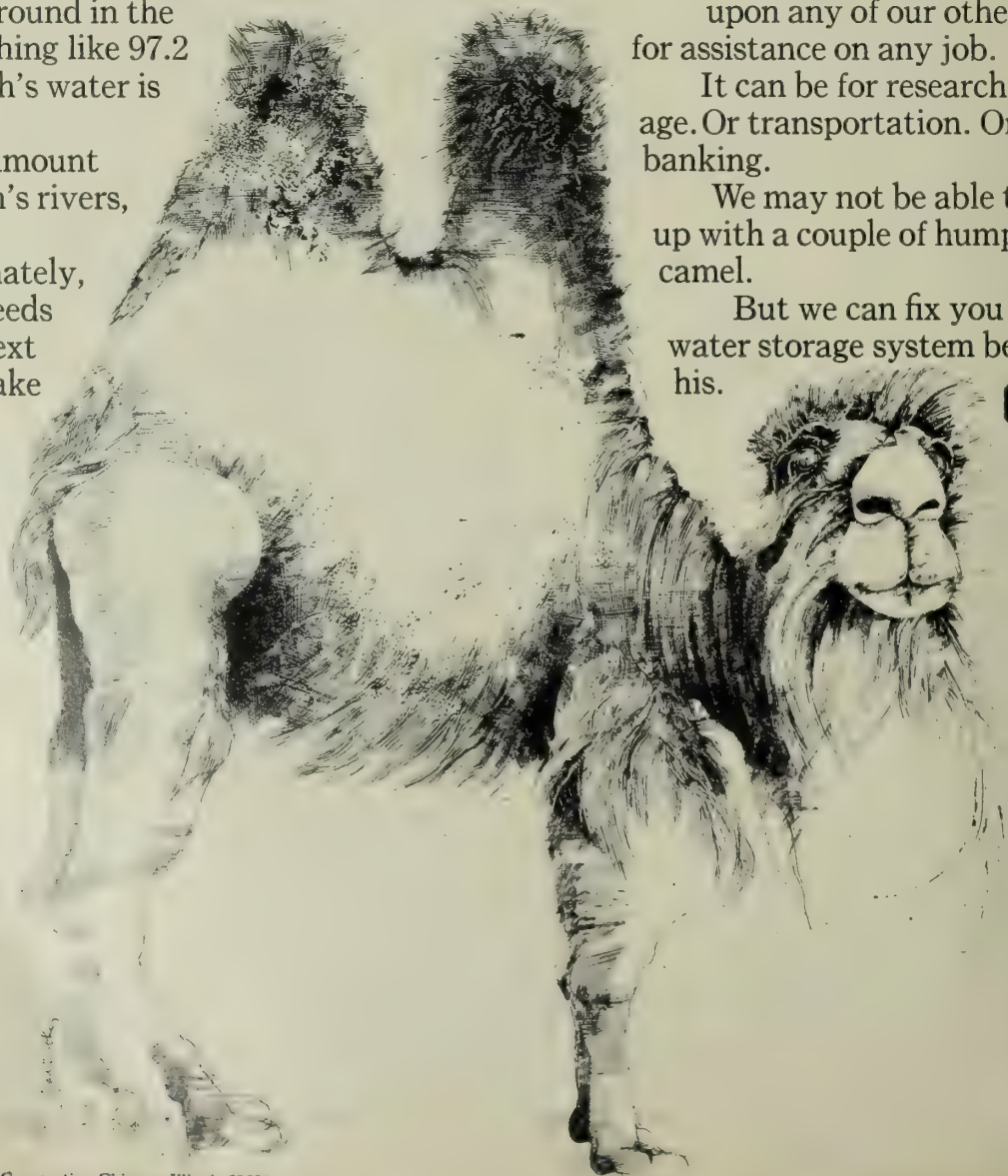
What's more, you can call upon any of our other divisions for assistance on any job.

It can be for research. Or storage. Or transportation. Or, even banking.

We may not be able to fix you up with a couple of humps like the camel.

But we can fix you up with a water storage system better than his.

GATX



Fact and Comment

PROGRESS THAT ISN'T

SST.

TIME BOMB IN THE PACKAGE

Having the GM strike settled is good.

Good and bad.

The bad isn't merely in the inflationary refueling that stems from the immediate hourly wage increase of 13% this year, with an added 3% a year during the next two years.

No, the real bad is the retirement time bomb ticking in the package. GM's contract provides an early retirement plan that will grant employees of 30 years' service a \$500-a-month pension if they're 58 years old. By 1972 they need only be 56 years old.

Soundly funding that one may strain even giant General Motors.

Soundly funding that one is virtually impossible for

most other companies, for most other industries.

There just ain't that much cash around to be cached away for due dates, some of which will start coming due in October 1971, and huge chunks of which will be payable in not so many years.

Should such early retirement at such a rate be incorporated in all or practically all future contracts with unions, all of us, unions included, better realize such benefits can only be collected in dollars that will have an actual value unrelated to today's buck.

We can print the astronomical amounts that will be involved.

But we cannot make them.

THE PRESIDENT AND THE PRESS

I must admit to not understanding why President Nixon holds so few press conferences. More than five months had elapsed before he scheduled the latest held this week, and he held only 11 in 22 months in office versus 53 for Eisenhower and 44 for Kennedy in their same periods in office.

For a number of understandable reasons, the President isn't all that fond of reporters generally, but he is first-rate at handling press conferences. By permitting these ses-

sions with the press to be televised, he makes his own emphasis.

It's not like the President to miss such golden opportunities. He's a whiz at what he probably considers these "adversary proceedings," and usually emerges a wide mile ahead. With 1972 not that far away and some Presidential restancing in the offing, full dress press conferences are made to order for Mr. Nixon and he shouldn't let anyone persuade him otherwise.

THE PRESIDENT AND HIS CABINET

Cabinet members who seek to establish a following or a base or a policy independent of the President simply don't understand what their job is. This President and every President deserves and should either demand the full loy-

alty of his Cabinet members or can the recalcitrant. Unlike the President and elected officials, Cabinet members have a constituency of one—the President. Their mission is to serve him or else depart—*gracefully*.

THE FIRST TIME AND THE LAST TIME THERE WERE FIVE

It's Christmas card time, and the only ones made mad by that are the relatively few Scrooges among us, and the mailmen. Picking Christmas cards, sending Christmas cards and getting Christmas cards is happy work. Going over last year's list and crossing off names from sadness or soreness; adding new ones; penning notes to long-time-not-seen friends is a meaningful part of the American Christmas season.

Ever since we were married 25 years ago and began to have them, our Christmas cards have been photos of our children. On the left is the first time

there were five (in 1955) and on the right is the last time there will only be five. Our oldest son is engaged, and we happily assume in the years ahead there will be more and more than five.

This year's card includes both pictures, and everybody on the same steps in just about comparable left to right positions. Despite the visible changes, much of what our young were like when young is what they're like today.

* * *

Merry Christmas!



HOW ABOUT THAT?

Hey, there's a fabulous new play on Broadway that you shouldn't miss—even though it has no nudes, no four-letter words, no visible mating of either the opposite or same sexes, no unintelligible screaming of blankety Blank verse or Rocky rhymes.

It does have hair—the kind of muttonchop sideburns, spikey mustaches and thick, long head toppings that officers and gentlemen wore when Victoria was Empress of

India. Then, as now and is now forgotten, facial hairiness was obligatory in the Best circles.

The play is called *Conduct Unbecoming*. It's a fabulous, well-costumed, gripping period melodrama taking place in the officers' mess of an India-stationed British regiment. The actors strut and spout and twirl their mustaches in the way it surely must have been. It's a nifty whodunit, and you won't guess whodunit until it outs at the end.

MAGAZINE NOTE

In the long ago when I was young and vevier, *Esquire* magazine—complete with Petty drawings—was the most widely devoured, influential and good fun magazine throughout the young and youth-thinking universes of university and businessmen. More women, too, then read it than sometimes admitted it. Imitators came and went in those decades as now.

The other day as I was reading the current issue, I

couldn't help but marvel at how *Esquire*, some 40 years later, is, if anything, more tuned in, more widely read and more influential than ever among the thinking swingers and/or swinging thinkers of today's very different U.S.A.

With so many famed magazines dead and rumored to be dying, we should be glad for and tip our caps to the everlasting vitality of *Esquire*. He doesn't show his age; the gentleman stays part of it.

BETTER IS BETTER

Some people as a result of adversity are sadder, wiser, kinder, more human.

Most of us are better, though, when things go better.

All good poets didn't and don't necessarily need garrets.

—MALCOLM S. FORBES,
Editor-in-Chief

A Yen for Business Machines

Don't look now, but the Japanese dominate the calculator business. And they are moving into dictating machines, copiers, even minicomputers.

WHAT the Chinese did with the abacus in the 6th century B.C., the Japanese are repeating today. That is, the Japanese are taking over the world's calculator business.

Today they make roughly half of all calculators sold in the U.S. and perhaps 70% of all those sold in the world. In 1971 the world market could hit \$700 million—some 75% above the 1970 total. Japan's dominant position is surprising in itself. For instance, Japan is now exporting more electronic calculators than color televisions. But here is the clincher: The Japanese did not manufacture calculators in mass until 1967.

Such swift and deep penetration of a growth market is cause for real concern among various office equipment companies, including Singer Friden and SCM Corp. The question is: What is to stop the Japanese from controlling *any* segment of the \$2-billion business-machine market (\$9 billion, including computers) that they want and are able to enter?

More to Come?

One possible answer comes from Howard K. Lake of Stanford Research Institute: "The Japanese will be the world's prime source of business machines in the Seventies. Calculators are only the beginning. The Japanese are already exporting dictating machines, copiers and even various types of computers."

"The Japanese showed with calculators," says Vice President Herb Bates of Singer Friden, "that if they want a piece of a market, they can get it."

The Japanese used to *import* electromechanical calculators from the U.S. But they tired of that by the mid-Sixties. The Japanese hate to import, and what's more, their government decided it could develop its own electronic calculator industry and *export* to the world. So the government began pumping low-cost loans and outright subsidies into its electronics companies. The result: By 1967 the Japanese were poised to crack the

\$200-million U.S. calculator market.

The odds seemed heavy against the Japanese. The U.S. market was dominated by five large, well-entrenched companies—Singer Friden, SCM, Litton Industries' Monroe division, Victor Comptometer Corp. and Olivetti-Underwood. Although Japan's new electronic machines looked competitive, the U.S. companies figured that the Japanese could never match their own huge 1,000-man sales and service staffs.

But they underestimated the Japanese on all counts. First, the electronic machines (which the U.S. firms were only dabbling with) were not only competitive with electromechanicals—they were faster, quieter, hand-somer and cheaper. In short, they were far superior. Second, because the Japanese machines didn't break down often, big service forces weren't critical. And third, the Japanese were able to sell through wholesale dealers and established retailers.

With a superior product under their arms, the distributors' journey-men salesmen knocked the pants off the big companies' men—for a while. Then some top company salesmen quit to join the Japanese. Canon U.S.A., a Japanese sales agent, had only three American salesmen in 1965; today it has 100 in New York City alone. "I am an American," says one turncoat, "and I would like to sell for an American company. But let's face it. The Japanese companies are where the money is."

The available share-of-market figures tell the story. The Japanese supplied \$5 million of the \$200-million worth of calculators sold here in 1967. According to projections, the Japanese will supply about \$220 million of the \$400 million U.S. market in 1971. Such Japanese companies as Sharp Electronics, Sony U.S.A., Toshiba and Canon, which combined had less than 1% of the 1967 market, now control from 5% to 10% each. Of course, the U.S. companies' figures have fallen. Friden, Monroe, SCM, Victor and Olivetti split more than 90% of the mar-



It Adds Up. How does Japan get its trade balance? For one thing, it sells calculators to others, uses the abacus itself.

ket three years ago. Today, Olivetti is the leader with 15%, but more than 10% of those sales are in electro-mechanicals which stand a chance of becoming extinct. The other four companies have 10% each and less. And their business is far less profitable, as the typical unit price has dropped to \$750 from about \$900 since 1968.

Have the American manufacturers thrown in the towel in the low-priced end of the market? Some of them have. Friden and Monroe are phasing out their American-made electro-mechanical models and are selling Japanese-made electronic calculators under their own brand names. Others, however, are fighting back. SCM has just introduced an electronic calculator for \$495 that is proudly American. Victor Comptometer also remains all-American, but in a higher priced range: \$700 and up. (Ironically, the low-cost Japanese machines—such as the ones Hitachi makes for Friden—contain integrated circuits purchased from such U.S. companies as Texas Instruments and Fairchild Camera.)

The companies like Friden, who have surrendered the low-end market

to the Japanese, try to put a good face on their move. With the Japanese working toward \$200 models for consumers, the Americans claim they can now concentrate on expensive programmable calculators, priced from \$1,200 to \$5,000 and up. The most sophisticated of those models are similar to desk-top computers.

It is almost as though some American companies have moved to the exclusive suburbs to get away from the immigrants invading the old neighborhood. Inevitably, the immigrants will follow. Already Canon and Sony have introduced programmable machines—and at least one company, Fujitsu, has leap-frogged ahead and begun importing some large-scale computers (see photo).

Officially, U.S. reaction to the news has been restrained. A spokesman at Singer Friden says: "I doubt that the Japanese will make impressive inroads. Selling a simple calculator is one thing. But to sell programmable calculators and computers, you really need specialized sales and service forces."

He may be right. But the argument has a depressingly familiar ring. ■

Planes, Planes Everywhere

*The airlines'
surplus capacity is
mounting faster
than even
pessimists dreamed.
This is a problem—
but for whom?*

BACK not so long ago, when the airlines were raking in big profits, nearly everything went their way. For instance, they regularly improved their already good earnings by selling off unneeded airplanes to smaller airlines or to charter operators. If well maintained, the planes brought considerably more than book value.

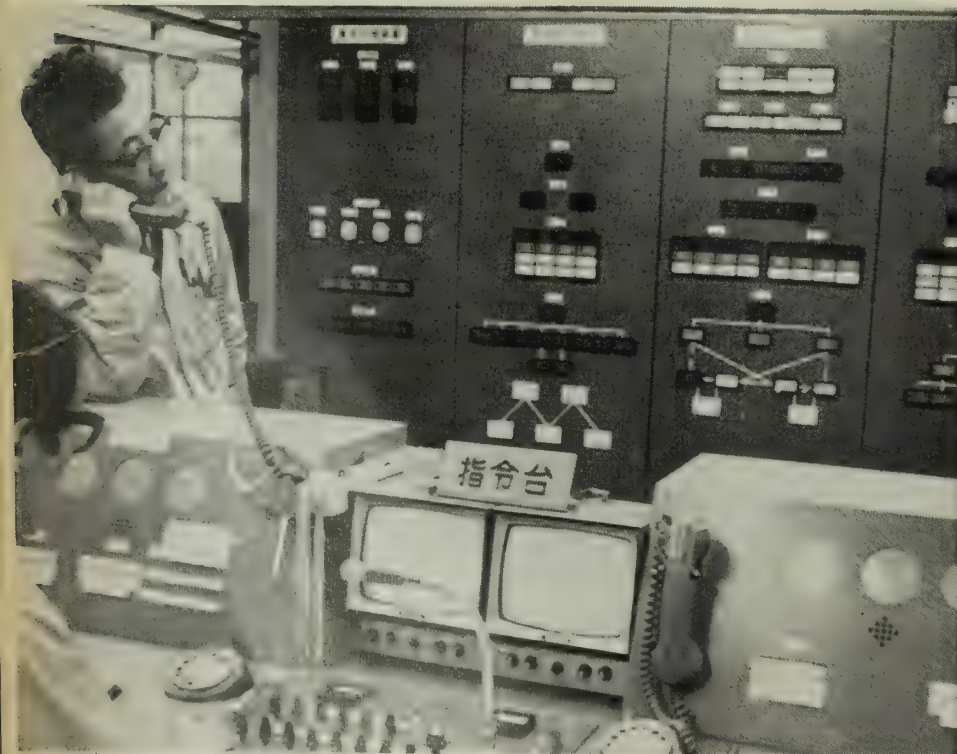
Even in good times the resulting capital gains were significant. In 1967, a splendid year, for example, Trans World Airlines made \$6.1 million selling old planes. That was 17% of TWA's total airline earnings that year. Eastern Air Lines' capital gains of \$1.1 million and \$3.3 million from plane sales in 1968 and 1969 were even more helpful, since—even with these gains—Eastern had an overall net loss in both years.

But now all the breaks—yes, even the little ones—are going the other way. "One or two years ago you sold used airplanes at a sure profit; now you can't get book value," admits George R. Sanborn, American Airlines' vice president for aircraft sales and services.

For example, a DC-8-type jet that sold 18 months ago for about \$2 million now has an asking price of \$1 million to \$1.5 million. TWA has five 707s grounded in Kansas City that it would love to sell for \$1 million each, but it has had no takers. A 1967 vintage 727 that brought \$4 million a year and a half ago now has a market value of about \$3.5 million—and for most carriers that's below book value.

Two-Edged Sword

This should surprise no one, considering the widely reported drastic reduction in the airlines' growth rate—plus the introduction of the jumbo jets. U.S. airline traffic, which jumped about 15% a year for most of the Sixties, may not grow at all this year. This has had a dismal effect both on the supply and the demand side of the used equipment market. Slower traffic growth means that the smaller airlines have little interest in buying used planes to add to their capacity,



Taking On IBM. The latest company to try its luck is Fujitsu, Japan's No. Two computer manufacturer. (Japan's No. One computer maker is—who else?—IBM Japan.) Unlike other Japanese computers, including the Hitachi model shown above, Fujitsu's computers are not made under U.S. licenses. So the company is free to import here. To get started, the \$400-million company is pitting its 230 computers head-to-head against IBM's 360/370 models. According to Fujitsu's U.S. agent, the 230s will cost 50% less than the 360s, and Fujitsu will send enough of its 25,000 workers here to provide two servicemen for each computer. Fujitsu's goal: 1% of the U.S. market by 1976.

while the bigger airlines suddenly have more surplus capacity they'd like to shed.

The coming of the wide-body jets—the 747s, L-1011s and DC-10s—was going to give the airlines a surplus in any event. These jets carry twice as many passengers as the 707s and DC-8s. The airlines originally thought they could make room for Jumbo by selling less desirable jets like 720s and the earliest 707s and DC-8s, which were produced before the coming of the more efficient fanjet engines. But today's sagging growth rate has begun to put fanjets into surplus too.

Second-hand planes are moving so slowly that an estimated 100 jets of the 707-DC-8 type—or 10% of those flying—are on the market now for more or less immediate delivery. Pan American World Airways alone has 19 non-fan 707s that it would like to sell in order to make way for the eight 747 jumbo jets it is scheduled to get sometime next year.

Besides these, a number of shorter haul BAC-111s, Caravelles and Electras are for sale. And that's still not the whole market. The airlines would put many more planes on the market if they could get a decent price for them. Pan Am, for example, has five 727s it does not need but is not bothering to offer for sale.

By the Hundreds

One authoritative source estimates that the total number of airplanes that would be available, if they could be sold for at least book value, is over 300. Even when strapped for cash, airlines are reluctant to take less than depreciated book value, because the difference could only come out of earnings.

(Of course, it is unlikely that as many as 300 planes would ever be offered at any one time. The reason: If American, for example, dumped a large lot of planes on the market, TWA might hold onto its own surplus craft in the hope that they could be turned to competitive advantage.)

Says George R. Dutton, Eastern's director of equipment and material sales, "We'll have to sell all 35 of our DC-8s over the next four years because of the L-1011s we have on order. Can all the airlines sell all the planes that will be displaced by the wide-body planes? Nobody knows."

However, UAL already has bitten the bullet by writing down the final \$10 million on its now grounded Caravelles in 1970 rather than in 1971 as planned. UAL expects to lose money this year anyway, and may figure on taking all its red ink at once. This may well not be the last write-off that the industry faces, however. Some of the

used planes, like the 720s and the early, nonfan DC-8s, are becoming particularly hard to sell these days.

Sanborn doesn't think the situation will get any worse however: "Prices have gone down. But I think we've about reached the floor. Toward the end of next year when the economy moves up again, so will the price of used airplanes."

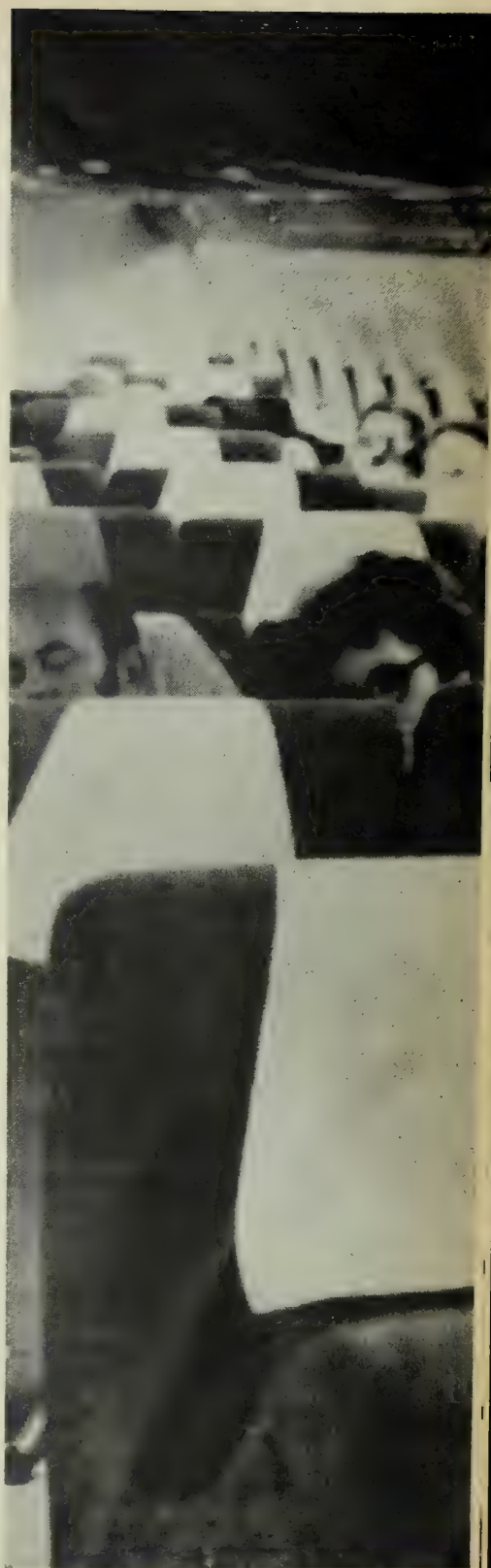
Won't there still be a surplus? Most certainly, but how much of a surplus depends on the point of view. If airline traffic growth recovers, the airlines could suddenly find themselves with fewer "surplus" planes. And even if it doesn't, the airlines may well decide they don't want to sell on a depressed market.

Robert E. Gordon, American's vice president for financial relations, puts it this way: "The airlines don't *have* to buy these new wide-body planes. The 707s can still compete favorably with the 747s, and may even have some advantages as far as frequency of service goes. So, if you can't get book value out of your old planes, maybe you won't buy new ones. If a guy can't sell his 720s, he'll fly 'em till the wings fall off—I hope not."

This is not to say, of course, that the airlines won't be buying *any* wide-body planes. On the contrary, they already have given the manufacturers firm orders for scores of them. What Gordon means is that the airlines would think twice before making further commitments. This would have a sorry effect on engine makers General Electric and United Aircraft, but especially on the plane manufacturers, Boeing, McDonnell Douglas and Lockheed, because not one of these three as yet has reached the break-even point on profits for its particular wide-body plane. And profits from the jumbo planes are especially important for the airframe manufacturers because their defense business has already sagged badly and could even fall still further.

Wouldn't it then be in the interests of the big aircraft manufacturers to do more in the way of trade-ins? Wouldn't they do well to take a leaf from Detroit's book? Boeing already is taking back Boeing jets as trade-ins on new planes, but, with its finances already strained close to the limit, Boeing can only go so far. Lockheed, of course, is in no condition to do much. McDonnell Douglas, too, is feeling the strains on its none-too-ample capital.

So, when you get down to it, about the only thing that's going to help the used airliner market—and thus break the logjam for the jumbos—would be a substantial pickup in the sale of airline tickets. ■



Glut Fodder. Three major airlines, United, American and TWA, are trying to avoid flying so many money-losing empty seats by offering fewer flights. If the Government approves, it will mean more unneeded airplanes (see story) to sell.

Still Swinging

Here's one conglomerate that isn't in trouble.

HAWAII is 2,200 miles from the U.S. mainland, but not so far away as to make Hawaii-based companies immune to the ills of conglomeration. One by one during the 1960s, the companies that had long dominated the Hawaiian economy acquired their way to increased size and less dependence on the growing but limited island economy—first Castle & Cooke, then Dillingham Corp. and more recently Amfac, Inc. (formerly American Factors).

Now Dillingham is suddenly in the red, by 5 cents a share, for the first nine months of 1970. It is having unexpected difficulty with its construction projects in Australia. Castle & Cooke, too, has seen its profit skid from 78 cents to 46 cents a share for the six months through September, thanks to a sugar workers' strike in Hawaii and high interest rates in mainland real estate ventures.

The Big Question

Is Amfac next?

Henry A. Walker Jr., Amfac's jovial, 48-year-old president, certainly doesn't think so. So far he's right. Amfac's sales, up from \$145 million to \$304 million between 1967 and 1969, rose another 33% to \$276 million during the first nine months of 1970. A good bit came from additional acquisitions. But earnings, after rising from \$1.33 to \$2.27 a share between 1967 and 1969, have kept on rising—though more slowly—from \$1.66 to \$1.84 for

the nine months through September.

Amfac conglomerated later than Castle & Cooke and Dillingham, and then mainly because it was pushed by the threat of tender offers in 1966 from Georgia-Pacific and another but unidentified company from the mainland. The attraction: Amfac's 170,000-acre Hawaiian land holdings, much of it under cultivation for sugar but adaptable for other development as well. Under such pressure, 74-year-old Chairman C. Hutton Smith (Amfac's head for nearly two decades) and the board in 1967 moved Harold C. Eichelberger up to chairman and turned the presidency over to a younger man who could diversify it rapidly and thereby protect it from future raids. The man he chose was Henry Walker, whose father had been president during the Thirties and Forties. From his relatively peaceful job as head of sugar cane operations, Walker was suddenly catapulted into the presidency of a company that needed to change very quickly.

He has based his moves on what he views as Amfac's strengths. For decades the company, while mainly a grower of sugar, had operated Hawaii's highly profitable (12% on sales before taxes) Liberty House department stores. That expertise led Walker to buy up Joseph Magnin Co., which operates 33 high-fashion stores in California and Nevada, and the 13-store Rhodes Western retail chain in the Southwest.



Walker of Amfac

Amfac had also gained experience in hotels, restaurants and residential real estate through developing the Kaanapali Beach resort area on the island of Maui, so it acquired mainland operations in these fields, too. The biggest was Los Angeles-based Fred Harvey Inc., which manages hotels and restaurants at numerous airports and national parks. Amfac has also become active in West Coast real estate development, such as mobile-home parks and the Silverado resort and residential complex in California's Napa Valley. Walker has made some 20 acquisitions, mostly on the main-

United Aircraft's Secret Weapon

The big jet engine company now gets a good chunk of its profits from the utilities—that's right, the electric utilities.

BOTH of United Aircraft Corp.'s bread-and-butter businesses are in trouble. Its defense sales are lagging, and its 747 jet engine program has run into delays and soaring costs. Wall Street has taken notice: UA stock recently sold at 30, far below its 1967 peak of 111½.

But the news coming out of United's New England headquarters these days isn't all bad. UA's gas turbine business, started ten years ago to put United's jet engine expertise to work in non-aircraft uses, showed a 50% sales jump in 1969 to \$134 million, and will leap almost as much again to nearly \$200 million in 1970 (*vs.* total sales of about \$2.5 billion). This gives United some

40% of the burgeoning U.S. gas turbine market and makes it a strong No. Two in the business behind—naturally—General Electric Co.

William J. Closs, president of United's Turbo-Power and Marine Systems subsidiary, won't talk about his gas turbine profits, but admits: "It's a good business." Profit margins certainly are much better than United Aircraft's traditionally thin ones (2.2% last year).

These gas turbine profits couldn't come at a better time and UA can be thankful it decided to diversify a bit in 1960. "We were convinced our equipment would be great for the electric utilities' emergency or peak-

load generating units," says Closs. "Gas turbines had an advantage over steam-powered units. They could be started up in two or three minutes *vs.* the hours-long start-up time necessary for steam plants."

UA had made the right decision about that particular market. That became apparent when the utilities began frantically ordering new generating equipment after the East Coast blackout of 1965. The big units they ordered couldn't be on stream for four, five or even seven years.

To get by in the meantime, the power companies turned to United, GE and Westinghouse. Gas turbines could be operating 12 to 14 months



Buying Time. Converting sugar land into high-profit resorts takes time that Amfac's Henry Walker is trying to gain by acquiring other businesses.



land in retailing, real estate, leisure and agricultural management.

There are two sides to diversification, however, as Amfac's Hawaiian neighbors have already discovered. It spreads the risks, but it also multiplies the points of vulnerability. The vulnerable point in Amfac's retailing operations is Rhodes Western, a troubled company it was able to acquire for less than book value. Says Walker: "We have two men at Liberty House who came from Rhodes, so we knew where the bodies are buried. Besides, the price was right."

Amfac's vulnerability in hotels and restaurants is greatest in Hawaii, though Harvey's mainland operations also could be hurt by continued adversity in the airline business. In Hawaii, Amfac is co-owner with UAL, Inc. (United Air Lines) of the Waikiki Beachcomber Hotel. Tourist traffic to Waikiki, formerly the mainstay of Hawaii's growth, has slumped alarmingly during the last two years. Tourists are beginning to be put off by the

crowded, increasingly honky-tonk atmosphere that now prevails there. There are already 15,000 hotel rooms in Waikiki, and another 9,000 will open by the end of next year.

Says Walker: "It's true there are temporary problems in Waikiki, though I emphasize the temporary. But we have larger operations in the Neighbor Islands, where the tourist business is quite good." In an attempt to promote their tourist business, Amfac and UAL have flown thousands of mainland travel agents to the Islands during the past two years.

In both real estate and sugar cane, Amfac is vulnerable to the same factors that have troubled Castle & Cooke: high interest rates in the former and strikes in the latter. In fact, Amfac recently acquired 11,000 acres of Castle & Cooke's sugar lands. But Walker sees this, along with Amfac's other 170,000 acres, not as a potential source of trouble but as a kind of corporate insurance policy. Amfac carries its land on its books at something un-

der \$20 million. "But it is worth anywhere from ten to 100 times that," says Walker. "There are not many companies that have a nest egg like that."

Of course, the protection is somewhat illusory against short-run troubles. Castle & Cooke has not been spared discomfort this year by its large Hawaiian land holdings, which it also carries at a fraction of their estimated \$300-million market value. Amfac, however, has come through a good deal of general economic adversity with its profits so far intact. By comparison with its fellow Hawaiian conglomerates, it is doing quite well. ■

after they were ordered, their capital costs were favorable and they caused less air pollution than coal or gas-fired plants. They have also proved unexpectedly useful, says Closs: "Where normally a gas turbine would have been used only 200 to 500 hours a year during peak-load periods, 1,000 hours a year is not unusual now."

Will the gas turbine spurt peter out when the big, basic generating plants finally get going? Not necessarily, says Closs. He and his competitors now have their sights set on the middle-sized packages the utilities buy as add-ons to their basic capacity. These units represent about 30% of the average utility's total capacity, compared with 10% for peaking units.

The gas turbine's higher fuel costs are working against Closs now as he tries to penetrate this market, but he sees a ray of hope: "Gas turbine operating costs have been stable. But

the cost of desulphurization is raising the cost of oil-fired units and the cost of low-sulphur coal is going up. The savings over gas turbine fuel costs are diminishing."

Closs is so optimistic he even talks about someday increasing the gas turbine's efficiency so that it could take over as the basic electricity generating unit—which means he could then attack the area that accounts for 60% of a utility's capacity. "But that's ten years away," he cautions.

Still Okay

In the meantime, Closs is having no trouble selling within his present limitations, though he expects sales to be up only another 10% to 15% in 1971. Closs also has great hopes for a marked increase in the sale of gas turbines to power ships.

Closs' biggest problem would seem to be his competition. "Certainly we're

at a handicap against GE and Westinghouse because they are large, diversified suppliers of electrical equipment," he says. "They get a markup on practically everything in the systems they sell: turbines, generators, transformers, relays. We only make the turbines in the packages we sell. And they have large utility marketing organizations; their intelligence is excellent." Closs has learned just how tough the competition can be. He took over the No. One position in gas turbines from GE in 1968 but quickly fell back when the electrical equipment giant opened up its big guns.

United still has managed to do all right, as its big lead over Westinghouse attests. Lucky? Perhaps, but United Aircraft still gets credit for having the sense to diversify logically when it did. If it hadn't, gleams of hope for the company's short-term future would be few and far between. ■

The Great Diaper Rash

They laughed when P&G went into the paper business. And suddenly, P&G is on top of the biggest thing since toilet paper: the disposable diaper, a brand-new, \$200-million-a-year market moving fast toward \$1 billion here and almost as much abroad.

MORRIS BONOFF has a very nice business and a stock listed on the American Stock Exchange. Morris Bonoff also has a problem. The business, which he and his family built from scratch to a 1970 volume of \$30 million, is facing technological obsolescence. Much of what Bonoff spent an entire lifetime building could be flushed, literally, down the drain.

Bonoff is chairman of the board, chief executive officer and largest stockholder (7% with his family) of Manhattan-based Associated Baby Services, Inc. Associated is in the diaper business. With its door-to-door pickup-and-delivery service, it helps rescue the mothers of America from the messy job of washing their own babies' diapers.

It's not birth control nor the possibility that future babies might be born toilet-trained that cause Bonoff's problem, but paper diapers. Diapers, one of the last of the cottage industries, are on their way into the throwaway age. Bonoff's company and some 400 other pickup-and-delivery diaper services face a blitz from companies like Procter & Gamble, Scott Paper and Kimberly-Clark.

The same problem faces Boston's Kendall Co.; Kendall claims that its Curity brand diapers account for over half of all the diapers sold in the U.S. But Kendall is turning out paper diapers, though in a minuscule amount. Kendall also supplies some of the materials used in P&G Pampers paper diapers. As for Morris Bonoff, he, too, has been selling, door-to-door, paper diapers that he manufactures in his own plants.

28 Billion a Year

Diapers? Don't turn up your nose. There are an estimated 9 million diaperable babies in the U.S. Figure 60 changes a week for each, and you come up with the astounding figure of 28 billion changes a year. The mere thought is enough to send a young mother back to the Pill.

Again at a rough estimate—because nobody knows precisely—paper diapers were a \$10-million business in the U.S. four years ago. Until 1966 the business was cloth all the way: A small 7% of cloth diapers was (and still is) done by pickup-and-delivery diaper services; the balance was done the old-fashioned way—in the wash-

tub or machine. Paper was nowhere.

In the four years since, paper diapers have zoomed from almost nothing to something like \$200 million, and, unless something happens to stop them, paper diapers will be a \$1-billion business by 1980.

Why the fast growth? In a word, convenience. No smelly, messy diapers to store in a pail until the diaper man comes. Just flush them down the toilet and be done with it. No wonder Morris Bonoff and his colleagues are worried. Last month, the pickup-and-delivery diaper men held their annual convention in Colorado Springs' Broadmoor Hotel. Reflecting the views of some observers attending this 25th annual meeting of the Diaper Service Industry Association, was one visitor who remarked: "If we don't watch out, the paper boys are going to do to us what Buffalo Bill did to the buffalo."

The cheapest way to diaper a baby is the oldest way: Buy your own diapers and wash them yourself. Even allowing for depreciation on the washer and dryer and diapers, this can be done for about \$2 or less a week per baby. A pickup-and-deliv-



ery service probably will cost about double that—\$2.75 to \$4 a week, depending on the locality and the number of changes. Finally, disposable paper diapers come in on the high side, with a cost per week that runs about \$3 to \$5.

The problem for the pickup-and-delivery people is that their cost advantage, barely 10%, probably isn't great enough to compensate for the greater convenience of paper diapers. Paper diapers probably will knock off a good part of the small segment served by Associated and the other pickup-and-delivery services. But its biggest gains could come from the 93% of the market unreached or unreachable by the pickup services.

The smell of this \$1-billion market has attracted some of the sharpest marketing noses in the U.S. Naturally, Procter & Gamble is in big, but so are Scott Paper, Kimberly-Clark, International Paper and Johnson & Johnson. Georgia-Pacific and Weyerhaeuser are moving in. Stepping up their efforts are mass retailers like Sears, Roebuck and Montgomery Ward.

They could hardly afford to stay out. Among consumer paper products, disposable diapers already have caught and passed the whole paper-napkin market, now a \$160-million-a-year business. Within five to ten years, they'll probably outstrip paper towels, currently a \$470-million business, and toilet tissue, which does an annual volume of \$535 million.

At the moment, Procter & Gam-

ble is sweeping the diaper field with its Pampers line, which may enjoy as much as 90% of the total existing market. P&G's lead, however, is not as overwhelming as it looks. Right now P&G is the only mass marketer with full national distribution. But its competitors, Scott in particular, are spreading out fast.

P&G is ahead because it was the first top marketer to come up with a well-designed, competitively priced disposable sold in a big way on a mass basis. Until 1966 disposables were expensive and poorly made, languishing almost exclusively on the shelves of drugstores. If promoted at all, it was only half-heartedly by such outfits as Parke, Davis and Chicopee Mills, whose Chux brand had been around for 28 years.

Wipe Off That Smirk!

Back in 1957 P&G moved into the paper business in a big way with the purchase of Charmin Mills, a regional producer of consumer paper products. Competitors smirked. What was the soap king doing in toilet paper and tissues? Gradually, they got the point, and the smirk disappeared: P&G had sniffed a major new market and had gotten to it first. Today P&G's assembly plants are turning out paper diapers literally by the hundreds of millions.

P&G spent more money and time—a full ten years—on developing and test-marketing Pampers than Henry Ford plowed into his first automobile or Edison spent on inventing the first incandescent bulb. In breaking into paper, P&G needed to make an end run around Scott, Kimberly-Clark and others strongly entrenched in the paper market with toilet paper, tissues and other products. Diapers were the heaven-sent answer.

Producing a successful throwaway diaper was not as simple as it sounds. P&G's product engineers needed something that was simultaneously soft and strong as well as moisture-proof, yet which could be profitably mass-produced at a popular price. In the first five years the best they could come up with was a disposable whose average retail price per unit was 10 cents. Supersecret market tests showed that this was far above the competitive range of 3½ cents typically charged by a diaper service and the 1½ cents it generally costs a woman to own and launder a single diaper at home.

So P&G called in its production engineers to see what they could do with the problem. After several hard years they came up with a block-long machine. This equipment simultaneously assembles three materials—



a quick-drying inner lining of soft, rayon-like material, a middle layer of absorbent tissue wadding and an outer sheet of waterproof polyethylene. Then it folds and glues them all together as the sheets roll along at hundreds of feet a minute.

"It is one of the most complex, high-speed assembly operations we know of," says P&G.

The new machine brought the unit price down to 5½ cents—for a diaper that can be pinned together and comes in three separate sizes: "new-born," "daytime" and "extra strength" for overnight. This price and product range was what P&G's brand managers felt they needed. They began full geographic distribution, starting in the Midwest in 1966. Now, all told, P&G is reportedly spending close to \$16 million a year, half for advertising, half for free samples—as much as it puts behind almost any one of its soap and detergent brands.

P&G is pouring on the promotion because its competitors, though entering the market later, are not sitting on their hands. As early as 1962 Scott began working on an entirely different two-part assembly (see cover photo) consisting of a permanent outer plastic panty (which each new mother gets free for coupons on the diaper package) and a disposable pad insert that fits into it. By early 1966, the same year P&G made its big move, Scott started test-marketing baby Scotts in Denver, Dallas and Minneapolis. Today Scott has some 70% of the country covered and expects to be fully national by next year.

The business gets pretty dirty at



times. Scott's product publicity says: "While other makes of disposable diapers are one-piece and fasten with potentially hazardous pins, baby-Scotts ... close with snaps." Scott's strategy in some markets seems to be to let P&G do the initial education job on consumers, then move in to share the wealth—hoping a few mothers' darlings have been stabbed by Pampers' pins.

On the other hand, Scott has tried to capitalize on the fact that P&G, until now, only has Pampers assembly plants in the Midwest (Cheboygan, Mich.), the East (Mehoopany, Pa.) and in the South (Cape Girardeau, Mo.). P&G only recently announced plans to build one in the Far West in Modesto, Calif.

To take advantage of this, Scott reversed its own traditional new-product strategy. "We went West first while Procter moved out of the Midwest into the East," says Ken Wright, who handled babyScott's domestic introduction for six years and now spearheads it internationally. "That destroyed Procter's usual initial advantage and forced them to make ex-

pensive shipments to the West Coast to match our move. That did not stop them. But it took something extra out of their war chest."

Kimberly-Clark also used much the same strategy to introduce Kimbies, a new disposable diaper whose adhesive tabs differ from Pampers' pins and babyScotts' button clips. International Paper's Facelle division has been marketing Fresh-A-Byes in Canada for the last few years and now is selling them in California and other markets. It also is turning out a new private label line of disposables for Montgomery Ward.

Crossing the Atlantic

The direct result is a full-fledged dogfight for market position on the West Coast, where P&G, Scott and Kimberly-Clark arrived about the same time. Now Scott has come East in full force.

Scott and Kimberly-Clark also have stolen a march on P&G in the foreign market, particularly in Scandinavia, where disposables have long been a way of life (*see box, p. 30*), and in Western Europe, where their

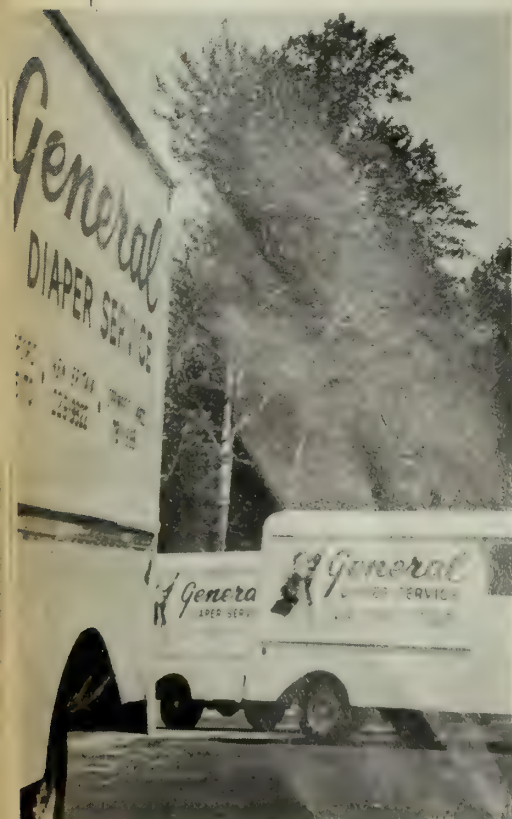
sales are rising as fast as in the U.S. "Now something like a \$250-million to a \$300-million market, Europe should hit \$750 million to \$1 billion in the next five to ten years," says Scott's Ken Wright.

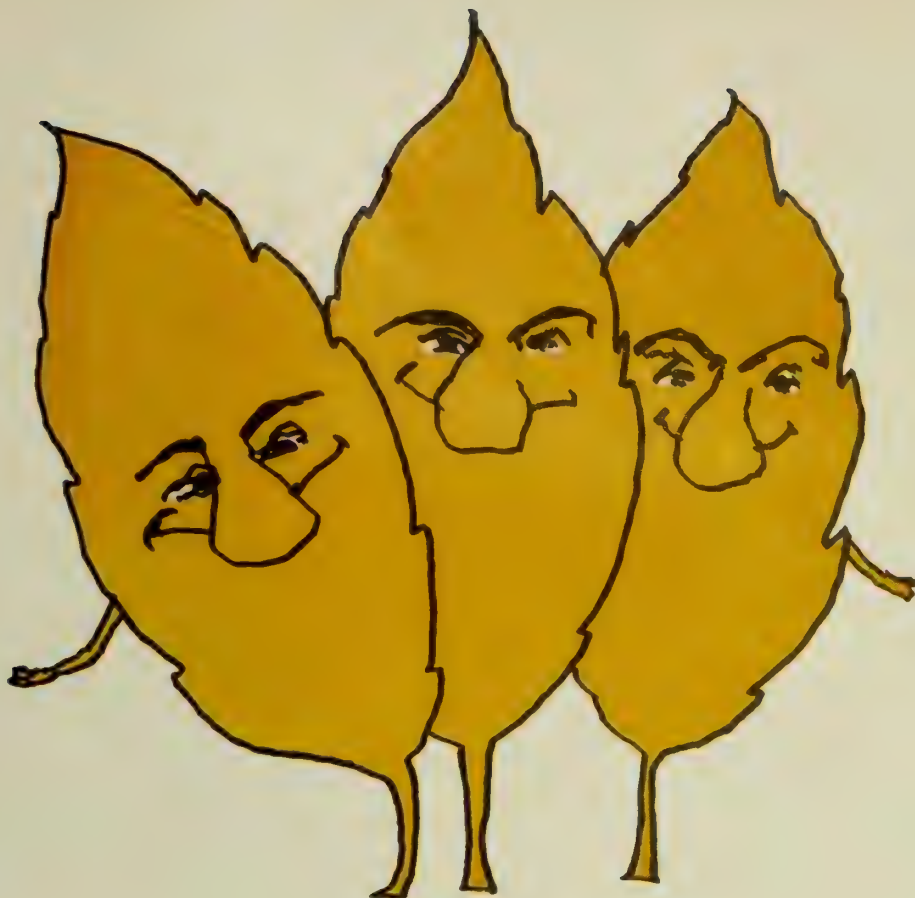
In Europe, Scott and Kimberly are up against such well-entrenched Swedish outfits as Cellva, Stille-Werner and Mölnlycke ("the J&J of Europe," which sells like P&G). The Swedes have been waiting for P&G and its competitors to educate enough American mothers in the use of disposables. Then they'll move in here.

Stockholm's Svenska Cellulose, Sweden's largest paper company, already has a firm foothold in the U.S. Svenska's American subsidiary, the Swedish Cellulose Corp. of New York, owns 22% of the common stock and is the major supplier of New York's Patrician Paper Co., one of the largest (sales \$9.7 million) private-label makers of consumer paper products (for A&P, among others) in the U.S. Although Patrician has not said so publicly, the word in the paper trade is that next summer Patrician expects to be producing disposable diapers

Obsolete? Can the door-to-door diaper services survive? They think that they can. But two things are working against them. One is convenience. The other is that they are competing with the most efficient form of distribution yet devised, the supermarket. Procter & Gamble's unmatched promotional power—particularly a heavy dose of daytime as well as night-

time spot-television advertising—already has succeeded in getting its Pampers placed in the baby products section of supermarkets and other mass outlets nationwide. P&G even beats many diaper service operators to the punch with a steady stream of new samples distributed to new mothers before they buy their own cloth diapers or sign up with a diaper service.





The tobacco people.

Since we started diversifying, we've been telling you about our growing family.

We've said that we're not just tobacco people. We're also packaging people. Convenience foods people. Corn refining people. Containerized shipping people.

All true. All important. But we should remind you that we are still tobacco people, with a solid base of brand leadership.

Our Winston is the country's most popular cigarette. Salem leads the menthol category. Camel remains ahead in regular-sized brands. Prince Albert is the largest selling smoking tobacco. Day's Work is the leading plug tobacco. These brands give us a substantial share of the domestic tobacco market. And we are expanding our international operations to satisfy

growing world demand.

Tobacco has been our business for almost one hundred years. And we're still growing. Always looking for ways to improve our tobacco products and our market share. Our record proves that when you do something extra for the consumer the results are bound to be something extra for yourself. For example, in the expanding low "tar" and nicotine cigarette market where Doral is already well established and our new Vantage is a promising entry.

Growth through diversification. We believe in it and we act on it. But after all, we were tobacco people first. And we plan to be first in tobacco for another hundred years.

RJR

RJReynolds Industries, Inc.

Inside every new is a little

Just enough to make it easy to switch from IBM to RCA. To let you keep using most of the 360 DOS programs you have now.

Here's how it works. Each family of computers by each manufacturer has its own unique internal language.

Called an "instruction set," it determines how a computer is programmed.

IBM's 360 has a set of 134 instructions. Nestled in amongst all the unique features of RCA's new computers is that same set. Exactly. We're the only other ones on the market that have it.

We planned it that way. Because a little bit of similarity has a lot of value to you.

RCA's 360 Mode of Operation lets you run 360 programs without change, and run them faster.

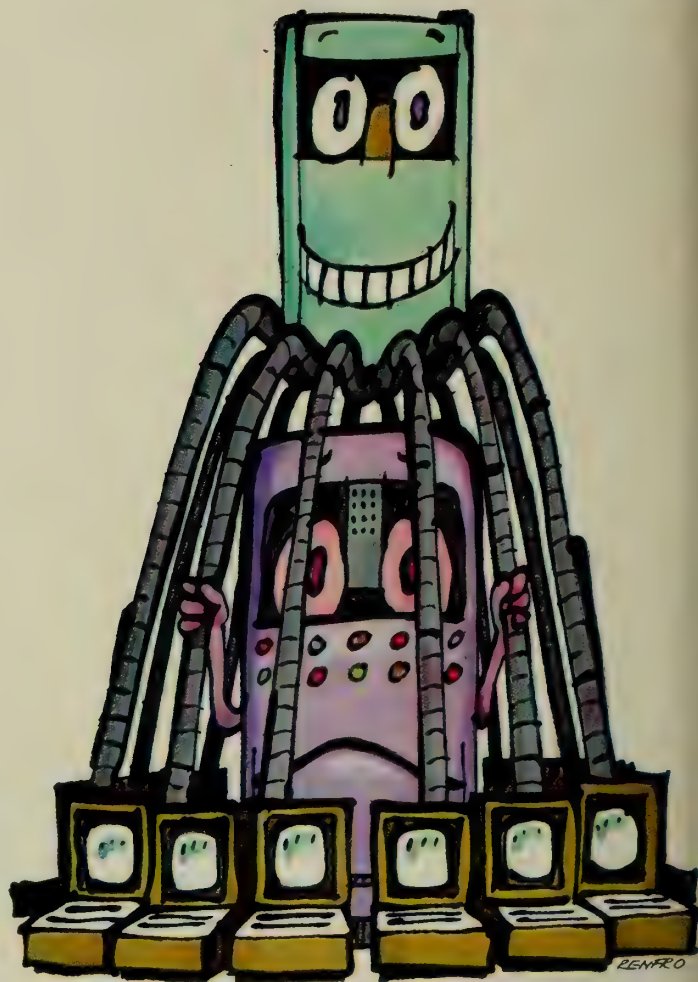
You've spent a lot of time, money and effort building a package of 360 DOS programs. When you switch to RCA, they're not all lost.

Because, based on the parallel between the 360 instruction set and ours, we've created a 360 Mode of Operation.

You can get it with every RCA 2, RCA 3, RCA 6 or RCA 7.

It's a combination of hardware and software that runs most 360/30, 40 and 50 DOS programs without modification. The only difference is they'll be running on a faster, more powerful computer.

So, we haven't just protected your software investment. We've made it worth more.



RCA's exclusive Guaranteed Conversion cuts the risk when you switch.

You will also have some programs you want to convert to RCA programs, to take advantage of the new features your new computer will have.

Again, because the instruction sets are identical, converting to RCA programming is easy.

You can do it yourself. Or you can have us do the whole thing for you.

For 360/30, 40 and 50 DOS users, we'll make the switch and guarantee results.

If you qualify, we'll convert your present applications for an agreed fee by an agreed date.

The guarantee provides for penalty payments by RCA if we don't perform, and appropriate provisions to protect both parties.

360 Mode of Operation. Guaranteed Conversion. It can't be easier than that.

RCA computer bit of IBM.

A little similarity makes switching easy. But it's RCA's big differences that make it right.

Our computers have a lot of things IBM's new computers don't have.

The reason most people have to move to a bigger computer is that their workload outgrows their computer's memory. To get more memory from IBM, you have to go all the way to a processor that's much bigger, more powerful and more expensive than you may need.

RCA found a new way to build lower cost memories with the same proven technology that IBM stayed with in its more expensive 370's the 155 and 165.

So we can keep prices down, and match memories to processors more sensibly than ever before. So you can afford memories big enough to go with the power you want.

Virtual memory. What's it really worth to you?

Virtual memory makes a computer work as though its memory is unlimited. Which means it's hard to outgrow.

It's also a key to communications. You can run jobs in your computer center, pipe them in from across the country and have people working on time-sharing terminals, all at the same time.

Virtual memory is one of the reasons we reached 2½ times our 1970 forecast for our new computers three weeks after we announced them.

RCA 3 and RCA 7 are the only new computers that have virtual memory. IBM's new computers don't.

IBM unbundled. RCA bundles or unbundles. How much can that save you?

IBM used to give you all the people for the systems support you needed as part of the cost of the computer. No more. Now they charge for it. And it's costing a lot of companies a lot more than they expected.

RCA, on the other hand, is the only major computer maker that lets you choose how you get systems support. Bundled or unbundled. Whichever is better for you.

Another contract exclusive is our Flexible Accrued Equity Plan that can reduce your equipment rentals up to 15% a month. And in 72 months, you own the computer.

All this is part of our plan to give you what you want, not what we want you to take.

Computers with a little bit of IBM included so they're easy to switch to. Computers with exclusive new features to make them the right step up for you. Policies that make them easier to get and more profitable to have.

Easy. That's the key. RCA is easier to do business with.

RCA
COMPUTERS

that supermarket chains can market under their own label at about 15% below the present price of most nationally advertised brands.

Competition already is so keen that the great diaper derby already lists one big casualty. Borden Co., which introduced its White Lamb brand five years ago, has since withdrawn it.

Meanwhile, Morris Bonoff and other old-time diapermen are not going down without waging a fight. The Diaper Service Industry Association is ready with its own campaign. The DSI has put Arthur D. Little, the big research firm in Cambridge, Mass., to work developing an odor-free container after a special market study showed that what most bugged diaper service users was the odor from dirty diapers waiting for pickup. The new ADL-designed system is now being marketed nationally by diaper services.

The old-line diaper people also think they may have something in the ecology argument (*see ad, right*). There is a rumor that Diaper Association representatives were feeding information to student activists last Earth Day to the effect that paper diapers were the latest plot by Big Business to clog the nation's streams and poison the water.

Is the convenience of paper diapers paid for in pollution? The evidence is contradictory, at best, according to Dr. John H. Bushnell, chairman of the Division of Environmental Biology, University of Colorado. Paper diapers are a highly processed product whose manufacture might add to pollution, Bushnell told FORBES. But he knows of no concrete evidence that the disposable diaper causes a greater pollution problem than the manufacture and disposal of cloth. Burning of the paper, he thinks, could cause some air pollution—"but essentially a low-grade type, not like the pollution resulting from industrial waste." He thinks that paper diapers could clog poor sewage systems but that any dire effect upon good systems is debatable.

Consumers Union, lately almost as interested in ecology as in product

SPREAD THE WORD!

Diaper Service is better than paper diapers.

Now, for the first time, there is an *effective*, easy-to-understand way to counteract the confusion and controversy over cotton diapers versus paper diapers.

SHOULD YOU USE COTTON DIAPERS OR PAPER DIAPERS ON YOUR BRAND NEW BABY? This booklet asks all the questions any concerned parent would ask. And it answers them all honestly and forthrightly—showing why cotton diapers and diaper service are best.

It tells your customers that cotton diapers are: less expensive—antiseptic—ecologically safer—recommended by physicians—truly disposable—more convenient—more absorbent—less work—and less liable to leave baby with diaper rash than paper diapers.

Should you use cotton diapers or paper diapers on your new baby?



Propaganda War. Though some diaper services also sell paper diapers as a sideline, their industry association urges them to pass this sheet on to their customers. This sheet encourages mothers to write for a brochure, which cites unnamed ecologists "and other experts" who "tell us we should avoid using paper diapers if possible. . . ."

testing, is preparing a major new rating of paper diaper brands scheduled for publication this February, but says it has not fully analyzed the pollution angle. Ralph Nader's Raiders say they haven't looked into paper diapers—yet.

Meanwhile, the paper diaper manufacturers have fought back. They are quick to point out that the pickup-and-delivery diapers and the home-cleaned diapers also contribute to ecological problems, not only because

they use up large amounts of water, but because they cause soap and detergent suds to be flushed into the sewage systems.

In the end, the ecological argument isn't likely to prove decisive. As one young lady said: "American women are not about to give up sanitary napkins, just because somebody says they cause pollution. I think mothers will feel the same way about the convenience of paper diapers."

Progress marches on. ■

Backward America

SWEDEN has the second-highest standard of living in the world and probably the *highest* standard of diapering: For years Swedish mothers have rarely seen a cloth diaper; 95% of Sweden's babies use paper ones. "I couldn't believe it when I came to your big, wonderful country with all its marvelous technology," says Mrs. Mar-

gareta Skala, whose husband, Bjorn, is secretary to the Swedish Mission to the United Nations in New York. At first, Mrs. Skala used P&G's Pampers for her three-month-old son, Gunnar. "But they cost so much, about three times what we have to pay for disposable diapers in Sweden." Did Mrs. Skala switch to cloth? No, indeed.

Her husband arranged to have Stockholm's Stille-Werner ship a huge load of its Bambino disposables to the U.S. Now, says Mrs. Skala, she and every young Swedish mother she knows uses them, including the wives of all her countrymen at the Swedish Chamber of Commerce and Swedish Information Service in New York City.

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Preparedness in Providence

Textron is weathering the conglomerate shakeout not with mirrors or acquisitions, but with Yankee thrift and taut management.

IT HAPPENED just as they said it would one day in the Union Clubs of Midwest America: One by one the conglomerates, who had terrorized the whole blue-chip industrial establishment in 1967 and 1968, began to shrink by expedient deglomeration, some to the verge of bankruptcy. But even as the shakeout continues, it is clear that a few conglomerates will weather the storm easily—most notably Providence-based Textron.

Two short years ago it was nearly impossible to pick Textron out from the conglomerate herd. Such was the sorry state of corporate financial reporting that all acquisitive multicompanies looked equally miraculous and equally incomprehensible.

But no longer. In 1970's first nine months, when earnings per share of conglomerates like Ogden and Kidde are off 53% and 33%, respectively, and when troubled L-T-V was running \$17.9 million in the red, Textron's modest decline of 9.1%—its first since 1961—was a standout. Textron has consistently ranked among the most profitable of the multicompanies with a return on total capital that has averaged over 17% in recent years.

In 1970 Textron's 15-year-old col-

lection of high-quality "baby blue chips" is showing the usual mixture of ups and downs. Predictably, the biggest falloff came in auto parts and machine tools, cushioned somewhat by steady performance in ball bearings (Fafnir) and stapling devices (Bostitch). Textron's biggest money earners continue to be consumer products like watchbands (Speidel), snowmobiles (Polaris) and chain saws (Homelite). But against all odds, Textron's aerospace division showed no decline at all, as growth chiefly in Minuteman strategic systems offset lower helicopter sales (Bell).

Banker's Balance Sheet

How has Textron remained so profitable? One reason is its strong balance sheet. Under the late Rupert Thompson, a onetime banker, Textron's long-term debt even during the booming late Sixties consistently remained around 20% of total capitalization, and senior capital, including preferred stock, never exceeded common equity.

What makes Textron's earnings record particularly impressive among multicompanies is its accounting conservatism. Research-and-development costs and tooling costs are expensed

rather than capitalized. Goodwill arising from purchase acquisitions is amortized against income rather than carried on the books as a nondepreciable asset. Unlike such blue chips as U.S. Steel and Rohm & Haas, Textron has *not* switched from accelerated to straight-line depreciation in order to increase earnings and asset valuation. In a number of divisions inventories are carried on a LIFO (last-in-first-out) basis, which penalizes earnings when prices rise as opposed to the alternative first-in-first-out (FIFO) method. Even the investment tax credit is amortized over the life of the assets, rather than being taken all at once into earnings each year as many companies do.

Textron deliberately chose not to add the 30-cent-to-40-cent per share that such devices would have yielded. "You don't win a long race by sprinting around and then getting tired," says President G. William Miller. "You run a steady race and don't try to scrounge around for earnings one year through fancy bookkeeping, only to pay the price the next. And you apply yourself to the task of exercising control without demotivating decentralized operations."

U.S. Copper Cuts the Pressure

The recent cuts in copper prices have significance far beyond their direct economic implications.

LESS than two months ago, after rising steadily for six years, the price of copper in the U.S. stood at an all-time high of 60 cents a pound. Today, after two swift reductions led by Phelps Dodge Corp., the second-largest domestic producer, U.S. copper sells for 53 cents a pound. Why?

One reason is that the six-year-long worldwide copper shortage seems to have given way, at least temporarily, to unexpected surpluses. But another reason could be a desire by the big U.S. producers—Anaconda, Kennecott, Phelps Dodge and the others—to relieve some of the mounting political and legal pressure against their two-tier pricing system.

Two-tier pricing was a good thing for U.S. copper users when the world copper price, as determined by levels on the London Metal Exchange, began soaring to record highs in the mid-1960s. From 30 cents a pound in

early 1964 the world price rose as high as 90 cents at one point and early this year stood at 80 cents. Fearing substitution by other metals, U.S. producers decided to maintain a separate lower price that in recent years has been pegged between 25% and 40% below the world price. Obviously, at that price, demand exceeded supply. This left the U.S. producers in the position of having to allocate their supplies of copper to selected fabricating customers. This in turn meant that some fabricators, including the producers' own sizable fabricating operations, were getting copper at much lower prices than those who had to buy heavily on the world market.

Fabricators who came up short began complaining loudly. In response, President Nixon last January appointed a Cabinet subcommittee, headed by Hendrik S. Houthakker, a member of the Council of Economic

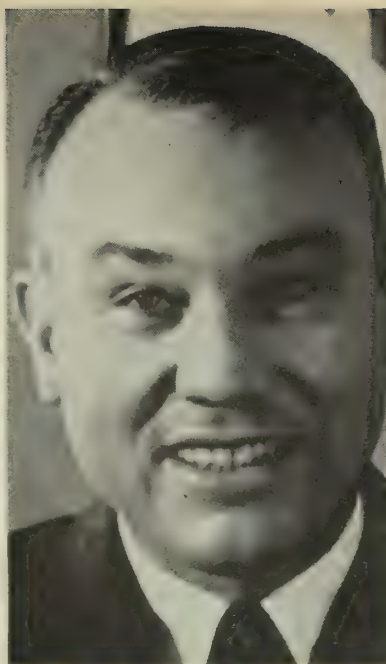
Advisers, to investigate. Was the two-priced system justified? Did U.S. producers discriminate in favor of their own fabricating divisions? The Houthakker Committee decided the two-tier pricing and allocation system wasn't justified and recommended steps, though fairly mild ones, to end it. The Committee refused to draw any antitrust conclusions. "It probably violates the spirit of the antitrust laws," says Houthakker, "but only a court of law can determine if there were actual violations."

Some fabricators, however, were not satisfied. Triangle Industries, a smallish Newark, N.J.-based fabricator, brought a suit that, among other remedies, demands the producers be forced to divest their fabricating operations. In October another small fabricator, Reading Industries, brought a similar suit. Meantime some politicians were getting interested. Con-

Textron did, however, suffer from the national reaction against conglomerate takeovers. Shortly after it lost United Fruit (\$439-million assets) to AMK (now United Brands) in late 1968, the Justice Department cracked down on large-scale mergers. And out the window went Bill Miller's "Phase Three" plan for major acquisitions (*FORBES*, Dec. 1, 1968).

Instead, Textron has turned its attention overseas. European-based Textron Atlantic, formed in early 1970, is being funded with \$30 million in Eurodollars and Euro-currencies as a vehicle for acquisitions. But Miller denies he is trying to get around the ban on large-scale acquisitions. "We're not going to Europe to try to do something big to get out from under the Justice Department. We're not out to acquire big companies or basic industries or to be the biggest employer in a major city. We're starting small with \$10-million to \$20-million companies, building a sound grouping just like we built Textron. Textron Atlantic is our conscious decision that we need to become a multinational company, a planetary corporation in this decade."

Miller is also contemplating a more aggressive small-company acquisition program: "I think we might substitute the building of Textron units through the acquisition of components, assembling a group of companies perhaps in a service area." He



Miller of Textron

concedes, however, that Textron would rather buy baby blue chips than piece them together this way.

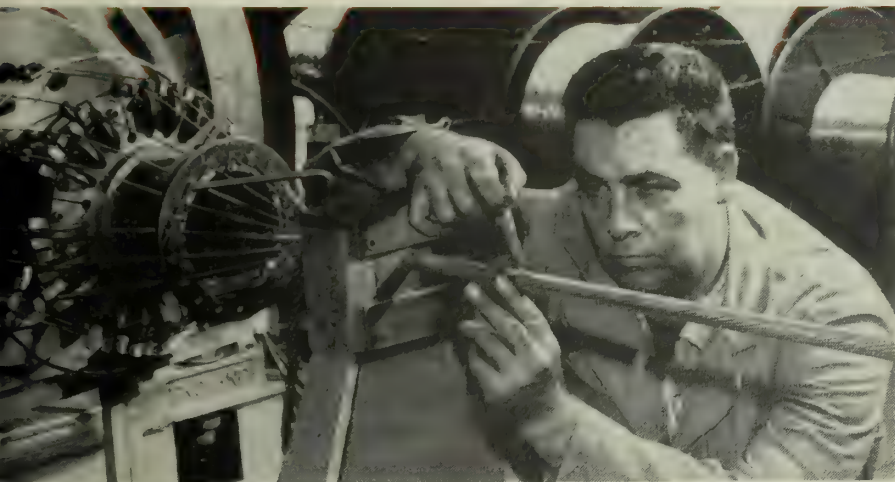
But Miller is quick to point out that Textron's hopes for the future are not pinned primarily on acquisitions. Says he: "I think the emphasis will be increasingly on internal growth for the next four or five years, as it has been with us for some years now, and that's a healthy test for

good companies. We're ready for it."

That he is. Textron's research outlay has averaged 23% of pretax income for the past five years, a bit over 2% of sales. As a result, roughly one-fifth of Textron's \$1.7-billion sales comes from products that are off the drawing boards five years or less.

As Miller sees it, Textron has finally graduated from "conglomerate" status: "The term conglomerate has come to mean a company working the arithmetic shell-game-type of operation. And I think these companies are going to fade out because of the cost of capital. Think of the large empires that are being dismantled right now in order to pay off creditors. Those creditors are not going to lend money to those kinds of companies so easily again when they see how painful it is to get it back. The diversified theory is a correct one, I think, but the capital is going to go to those companies that think in operating terms and have shown they know how to manage their assets and control expenses in tough times."

Or, to put it another way, Textron is a conglomerate that did its wheeling and dealing in the Fifties when it was innovative, then got its house in order financially and operationally in the Sixties and had sense enough to bow out when imitators carried a good idea to excess. Call it the legacy of a prudent Yankee banker named Rupe Thompson. ■



Fabricators are getting cheaper copper these days, but the lawsuits remain.

gressmen John Moss (Dem., Calif.) and Phillip Blanton (Dem., Tenn.) opened hearings on the U.S. producers' pricing and allocation system.

Meanwhile, events were making the whole matter, temporarily at least, academic. With the world price at just under 50 cents a pound, the new U.S. price was only 4 cents away. George

B. Munroe, Phelps Dodge's 48-year-old president, recently declared flatly: "The two-price system is dead." In fact, the prices could come even closer together. Late last month representatives of the world's big copper producing nations—Zambia, Chile, Peru and Congo Kinshasa—convened in Paris to seek ways of firming and per-

haps raising the world price, which may happen early in 1971.

Remembering the disadvantages of not being allocated lower priced U.S. copper during the recent shortage period, the domestic producers' regular customers were reluctant to shift to the world market even at much lower prices. But they were becoming increasingly unhappy about it. This placed the fabricators, including the producers' own fabricating divisions, at a clear competitive disadvantage.

Is two-tier pricing and allocation really a dead issue now? "Events have overtaken the market and may make it look that way," says Hendrik Houthakker, "but the fact is that the system still exists." Another copper shortage might resurrect it, and another shortage could arise as early as next summer, when the U.S. producers face another round of labor negotiations and a possible strike. The last strike against them, for nine months in 1968, prolonged the worldwide shortage for two more years.

But for now the U.S. producers seem to have removed some of the political-economic pressures. ■

Britain's Booming China Trade

Surging demand from the U.S. has catapulted England's bone-china industry out of its cottage industry past and almost into the 20th century.

THERE aren't many people who can afford it. Just enough.

Just enough to make England's bone-china industry "constantly over-sold." Which is the English way of saying that no matter how much the industry produces, it cannot keep up with the demand.

Bone china is almost an English monopoly. In fact, it's almost a monopoly of a city in England called Stoke-on-Trent, made famous in the novels of Arnold Bennett. There is one company in the U.S. that manufactures bone china, Lenox. There are two in Japan. Aside from that, all bone china is manufactured in Eng-

land, and 85% of all the bone china manufactured in England is manufactured in Stoke-on-Trent.

Almost every American housewife knows the names: Wedgwood, Spode, Minton, Royal Worcester, Royal Doulton, Royal Crown Derby, Ridgwood, Booth. They're expensive, and they're getting more expensive day by day. A Dynasty place setting (made by Minton) that sold for \$175 just a few years ago sells for \$375 now. Dynasty is a standard pattern. Anything special costs a great deal more. The other day, John Hartill, great-great grandson of the founder of Minton, showed a visitor an 18-

place dinner set that had been ordered by a Texan. Price: \$12,000. One of Hartill's assistants, Mrs. Sheila Redmond, went him a bit better. She showed a dinner set ordered by another Texan for \$26,400.

Stoke-on-Trent was making pottery back in the days of the Romans. It started making bone china about 270 years ago. Bone china gets its name from the fact that it's made half from clay and half from what Hartill calls "burned cow bones." Until about 20 years ago it was a cottage industry, consisting of hundreds of tiny firms. Then Americans started to want bone china. The cottage firms could not meet the demand, and, as a result, they began to amalgamate. About two-thirds of the output is now concentrated in four publicly owned groups: Wedgwood, Royal Doulton, Royal Worcester and Allied English Potteries. Among them they employ about 30,000 workers and they do about \$125 million worth of business a year, some 40% of it for export.

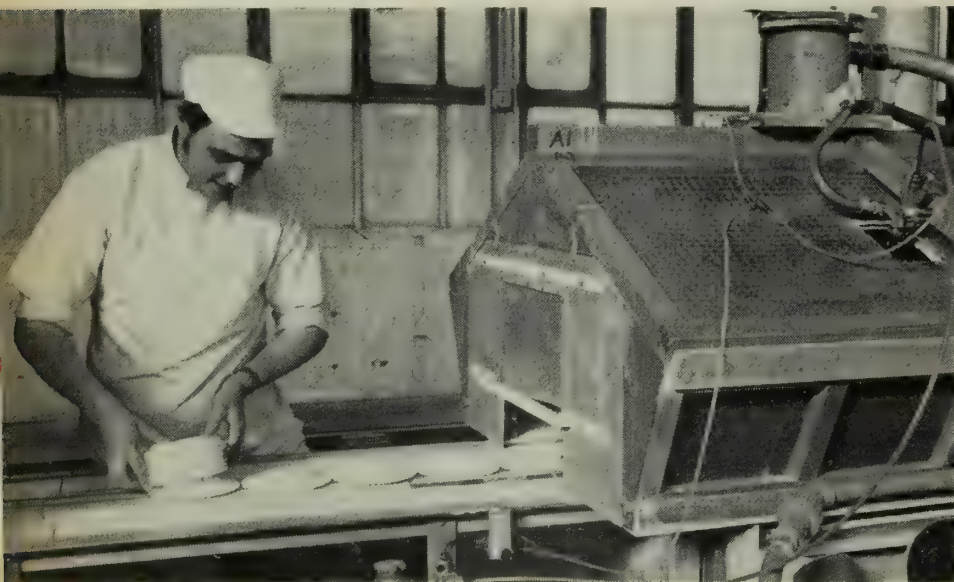
Prior to the amalgamations, most of the firms barely got along. Minton (which is now part of the Royal Doulton group) made a minuscule profit. Spode lost money year after year, attempting to maintain 350 patterns in stock and to fill any special order. Royal Crown Derby was in the red for 15 years straight.

Now, all four of the bone-china groups are highly profitable, earning between 8% and 11% on sales, and all are expanding madly to meet the American demand, which has risen by 70% in the past five years.

The reason the industry continues to stay in Stoke-on-Trent is that, despite great modernization and rationalization, it still is basically a handicraft industry (see photos). And the skilled people live in Stoke-on-Trent.

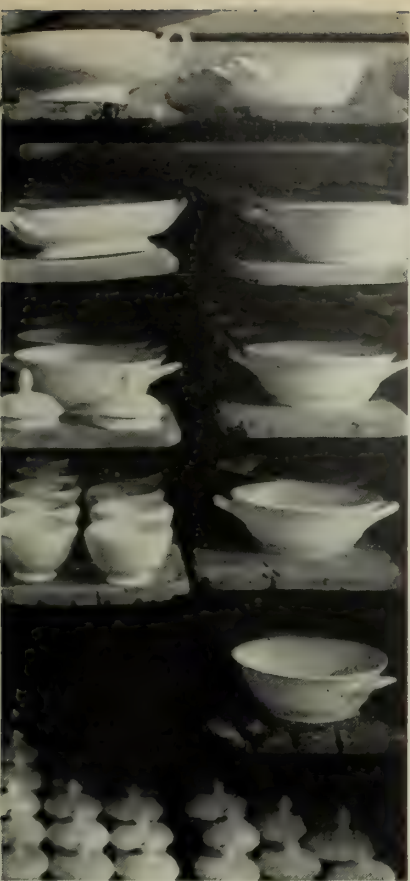
They are people like Harold and Charlie Hopwood, brothers, who work at Minton. Their father worked at Minton for 56 years. Their grandfather, born in 1827, went to Minton when he was ten, the year Queen Victoria was crowned, and stayed there for 70 years. Their great-grandfather started at Minton when it was founded in 1793.

Until recently, the people at Stoke-on-Trent learned how to make bone china simply by watching their parents make it right in their homes. This system of education was called "sitting by Nellie." Now that bone china no longer is a cottage industry, the four groups that dominate it have a training program, sponsored by the government under the Government Training Act. This requires the companies to spend 1.5% of their payrolls training youngsters in the various



Stoke-on-Trent remains the headquarters for the Minton China Works and others for reasons that no longer exist. Abundant red clay deposits which made the town the center of pottery-making in Roman times are not suitable for light-colored bone china. Kilns that once used near-by coal for firing now are fueled by oil, electricity and natural gas.





Still Picturesque but no longer impractical, England's bone-china makers prove that hand-crafting can pay in 1970.



skills involved in making bone china.

Depending on what skill a youngster wants to learn, it takes between a couple of months and several years for him or her (50% of the workers are women) to become a craftsman.

The necessity for craftsmen is what makes the bone-china industry constantly "oversold." There simply aren't enough of them, despite the government-sponsored training program. A special order may take as long as nine months to fill. That \$12,000, 18-piece dinner set John Hartill showed a visitor was two years in the making.

In the old days, practically all bone china was made to order. Much still is, and the biggest profits come from special orders. However, the increasing demand from Americans and other foreigners has led to a great deal of standardization. In the U.S. market, according to John Bryan, the first nonfamily chairman of Wedgwood, the firms have discovered a strange thing. While the English want contemporary designs, Americans demand the traditional patterns. "Americans want recognizable English designs," says Bryan.

Americans also have an insatiable demand for "commemorabilia." These are special issues commemorating moon landings, Presidential inaugurations, college graduations and the like. There is also an insatiable demand for limited editions of a specially designed figurine.

The industry loves this, because, given the demand, it can get profit margins as high as 25%. "They're only jam," says a Doulton spokesman, "but very nice jam."

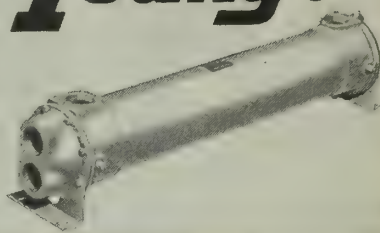
One of the reasons for the demand for commemorabilia is the fact that it often appreciates tremendously in value, making it a fine investment. The classic example is the Bobwhite Quail. This was the first in Royal Worcester's famous series of Birds of America. It was discontinued after only 22 pairs had been made. Sold originally for about \$200, a pair recently brought \$36,000 at auction.

Twenty percent of Wedgwood's china business comes from such special issues. Royal Doulton now brings out a new special issue a week. Each issue may run to several hundred copies, but Royal Doulton releases only a few at a time over a period of two or three years. One recent edition, the Indian Brave, came out in 500 copies at \$2,350 each.

Facing the railroad station in Stoke-on-Trent is a statue of Josiah Wedgwood, who was born in 1730. Wedgwood is the patron saint of the city, but he never made bone china. He made pottery. ■

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As They See It

THE TROUBLE with journalism—and we ought to know—is that often you must interpret events without the benefit of much perspective. Take the conglomerates. Because they looked good a few years ago, they seemed the wave of the future. Now it's the other way around: Conglomerates seem a fraud, an optical illusion created with bookkeeping tricks.

How can heroes turn into bums so fast? Or is it a matter of perspective?

We put the question to Royal Little, the man who really started it all. Founder of Textron, of Indian Head Inc. and of at least three other conglomerate-type companies, he was first called a bum for his idea of unrelated diversification; later he saw his idea become widely copied, then fall into disfavor again.

Do you still believe in the basic concept? Senior Editor James Cook asked Little last month. Or do you think that companies are better off these days sticking to one or two lines of business?

"I'm as convinced as I was originally," Little replied between munches of a light lunch in his modest office in Providence, R.I. "When they are conservatively run, unrelated businesses are an excellent means of managing capital."

FORBES picked up the distinction. For the conglomerates that were not conservatively run, what do you think really went wrong?

"A combination of things. Some companies have not been able to properly control the managements of their divisions, so that divisions have sometimes gotten into trouble without the managements realizing there was trouble coming. In a well-run diversified company, you must have very close financial control, but most important, you must have highly skilled divisional managements given autonomy to run the divisions without too much home office interference. My experience shows that excessive home office interference drives the really competent executive to look for other opportunities.

"A large diversified company is only as good as its component parts. The money is made at the divisional level. The most important thing in any business is the quality of management—right on down."

Listening to Little talk thus, we be-

gan to see what had probably been the basic mistake made by many of the latter-day conglomerators: They had begun to think of their businesses in terms of mere numbers, forgetting that the numbers are only shorthand for what is going on in the real world, at the "divisional level," as Little would probably put it. Intoxicated by numbers, they began to think that they could expand there indefinitely; that they could ignore problems in the real world of sales, of engineering, of personnel.

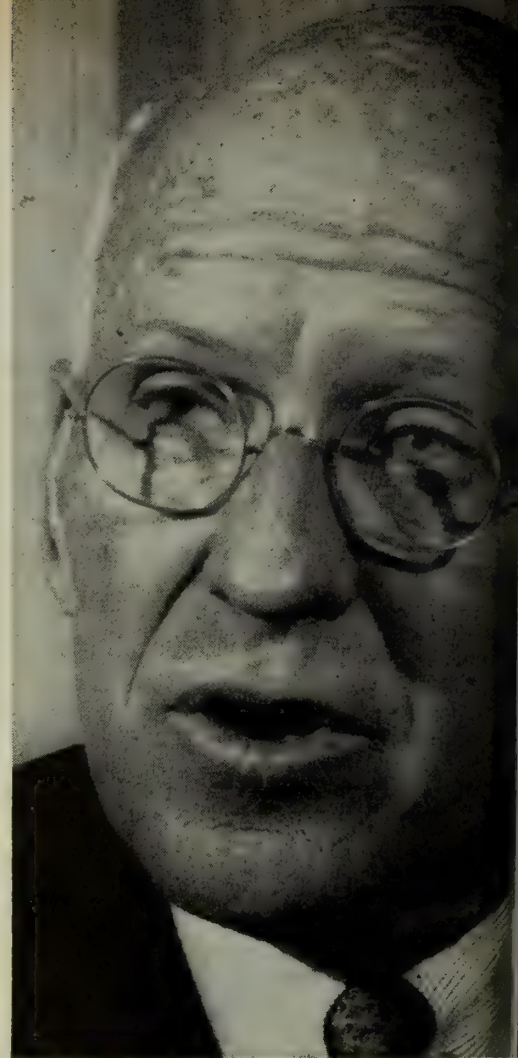
Little went on to point out that his original concept had been a good deal more conservative and realistic, though less dramatic, than later variations on it. He had not been looking for supergrowth. In shifting his assets from textiles to totally unrelated businesses, Little explained, he was simply looking for a better return on his invested capital.

"We had three basic concepts. We chose a course which we felt would avoid: 1) the cycles involved in being 100% in any one industry, 2) any problems with the Justice Department and the Federal Trade Commission, since we planned never to buy businesses that were allied in any way and 3) the pressure that aggressive management is always under to overexpand its capacity.

"We had noticed that many of the cycles industries went through were caused by management itself—through the overexpansion of capacity. So we decided that instead of overexpanding, our available capital would be used to purchase other businesses that perhaps had a growth potential. Those three concepts were what led us to diversify, and I feel they still hold good today."

As Little went on to explain how many of the later conglomerators went wrong, the same theme recurred: too much attention to numbers, not enough to underlying values, to underlying realities, to management.

"Many companies that followed our lead had high-multiple stocks that made it very easy for them to acquire, on an attractive basis, other businesses. Textron's multiple ran about eight times earnings, so in most cases it couldn't afford to use stock in the early days to make acquisitions. But if you look at the record, I think you'll find that many of the companies that had high multiples have been the ones that ended up getting into trou-



Conglomerator Little

ble. Because they had a negotiable security—one that may have been overpriced when later evaluated in relation to future market conditions—they grew too fast."

Litton Industries, we suggested, Whittaker Corp., companies of this sort. We reminded Little that the later conglomerators didn't think they were going too fast. They tended to think rather that Little's idea had outgrown its originator, and they carried it much further. But the imitators made a major mistake: In adopting Textron's form they had neglected to adopt its content.

"Basically," Little explained, "we started off with the idea of acquiring the leading or second-best company in relatively small fields, rather than companies in huge industries where the competition—General Electric or General Motors, say—was particularly difficult for the small participants. If you look at Textron's present portfolio, you'll find pretty close to 12 divisions which illustrate that basic theory—Gorham silverware, Bostitch staplers,

Homelite chain saws, Speidel watchbands, etc. In the long run, I believe, companies of that sort will have fewer cyclical problems, particularly where they make consumer products."

These were already good companies, we remarked.

"Yes," Little replied, "but I would say that Textron at least has been able to assist management in their different fields to get the capital to expand their activities and to become more important factors in their particular industries. When we acquired it, Homelite was doing approximately half the volume of its leading competitor. Today it's doing over twice the volume of that former leading competitor. That was in part because Textron could supply it with capital for the building of new low-cost plants in the South."

We said that in our experience many conglomerates, even where they bought good companies, went wrong in the end because they failed to keep the managements they thought they had acquired. Either that or they failed to motivate the managers as well as they had been motivated when on their own. How did Textron handle that problem?

"By tying our cost-incentive bonuses to the return on capital. Under the old type of incentive, where bonuses were paid on some percentage of earnings, the smart manager would get more and more capital, regardless of whether it increased his average return on equity, because he would get some portion of any increased earnings, even though he might reduce the overall return on capital 30% or 40%. Under the form of incentive that we adopted, the manager is in exactly the same spot as the stockholder. He's got to analyze the effect of any investment on his bonus, which means that, if he recommends an investment that's going to drop the rate of return on his division, he's going to seriously question whether it's advisable to do it. On the other hand, under that system, you have to provide for the unusual development expenses that may be necessary for new products, by permitting them to be capitalized and written off over, say, three to five years.

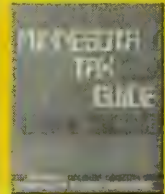
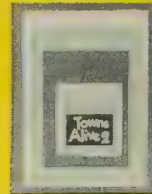
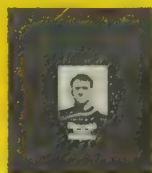
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As They See It

there the same temptation on the divisional level?

"In the companies I've been involved with, the managements have been very careful not to do anything of that sort. The incentive compensation is determined by the outside public accountants, and, of course, the home office scrutinizes the accounting procedures to be sure that the management isn't taking advantage of accounting procedures to get themselves bigger bonuses."

As we listened to Little, we couldn't help thinking again and again that here was a rare businessman: He never got carried away by his success; unlike so many of the later conglomerators, he recognized the strength of his idea but also its limitations.

At 74, Royal Little is still very much worth listening to. He is slim and arrow-straight. His hands are a bit gnarled now and his hair has receded, but his eyes are still bright, his manner youthful and enthusiastic.

We asked him whether he agreed that recent federal policy had finally blown the whistle on any further large-scale conglomeration.

"I don't think so. I don't think the Justice Department is interested in stopping smaller diversified companies—like Amtel of which I'm chairman of the board. We started that about five years ago as a relatively small operation with two divisions, and we're already up to, I think, \$125 million in sales, and I think 12 divisions. I see no reason why a company like Amtel should have any trouble from the Justice Department so long as we stick to the principle of not buying competing operations or trying to integrate forward or backward. It's only when you get up over a billion dollars that I think the Government's going to take a careful look at any big acquisitions."

How about changes in accounting methods? Are not they a big deterrent? After all, even Textron became devoted to pooling-of-interest accounting in the late Sixties.

"Everyone used pooling of interest on voting stock for acquisitions because it avoided an enormous goodwill item on the balance sheet. I think the new accounting rules are ridiculous because, in effect, they are saying that on a tax-free exchange you have to build up a goodwill item and cre-

ate an asset which cannot be written off with any advantage. From an operating point of view, that's a ridiculous theory. I realize it was probably brought about by some of the abuses in the past, but I still feel it's an incorrect concept.

"I wonder whether the accountants thought up this idea in order to preserve a lot of the clients they were losing through merger. I'm sure the accountants would deny it, but I'm sure one of the reasons they thought up this plan was to preserve the status quo and stop their clients from swapping their accounting firms by the merger route."

We asked: What opportunities for acquisition remain? Haven't the most likely prospects been pretty much picked over?

"I think the reason that there were so many acquisitions in the last few years was that, first, the multiples of many of the common stocks of the acquiring companies were high; second, the seller knew he was peaking out in his earnings and it was a good time to sell. The combination of those things created an atmosphere where many businesses decided the time had come to sell and get some diversification of investment.

"At the present time, you've got the reverse condition: Unless forced to by some tax problem, the owners of good businesses will not sell because their earnings are down. In pe-



riods of recession, the owners of good businesses just wait until the next recovery before they discuss sale. On the other hand, the acquiring companies have such low multiples that they don't want to use stock for acquisitions, and, of course, with tight money, most of the financial institutions won't let their clients borrow money to make acquisitions for cash.

"So what is happening today is that good businesses or good divisions are being sold by companies that have indigestion—that need the cash to pay off their debts—to companies that have the credit and cash to pick up reasonably good bargains."

You think that the conglomerate idea will endure? That there will be more conglomerates and that they will prosper?

"I think in time the good diversified companies are going to end up with a terrific earnings and dividend record. I think that companies like Textron will be considered among the blue chips of the future. Textron won't have the fast future growth it had when it was building because it's going to be difficult to make big acquisitions without government problems. But well-run, well-managed companies that have many divisions with growth potential, I think, will certainly be among the blue chips of the future."

We tried a hard question: Considering what Burlington Industries has done in the textile business, do you ever have any suspicion Textron might have done as well staying in textiles where it started? That one didn't bother him at all.

"Actually, Spencer Love [Burlington's late chief executive] and I used to compare notes every year on the return we were making on net worth. For many years when he was diversifying in textiles and we were trying our experiment in diversification, the two of us were pretty close. But you'll find, the last four or five years, Textron's return on net worth has been far better than Burlington's, though I think that their stock is selling at a better price/earnings ratio."

Before we left, we couldn't resist putting another question: What do you think of the general prospects for the economy and the stock market?

The answer was thoughtful but a bit chilling:

"I happen to be one who thinks it's going to be very difficult for industry to make the return on net worth that it used to in the Sixties. Labor increases are going to continue to outpace productivity, and there's going to be an enormous amount of refunding of low-interest-cost debt with high-interest-cost debt, which, in my opinion, cannot be passed along in prices. We're apparently in for an era of high interest costs for some time, primarily because of the enormous capital requirements of the utilities and the petroleum industry.

"So I don't foresee in the next few years anything like the 15% return on common equity that industry averaged in 1968.

"What the effect is going to be on stock prices I don't know. One important factor is that during the last half of the Sixties the people who had control of the investment of pension and other funds went overboard on common stocks—at the wrong time. They've now reversed their policy and are getting back to 40% or 50% common stocks, and that's going to have a material effect on the market.

"In the late Sixties, you had a buoyant market and rising earnings, but you also had many billions of dollars that normally would have been invested in bonds suddenly seeking common equity investment. You got an absolutely abnormal market from those two factors. Now you're going into reverse. A lot of the pension funds are going to seek out real estate investments and fixed income investments. There's going to be less of that money competing for common stocks, and therefore it's changing the demand-supply relationship."

As he pondered Little's remarks during the trip to the airport and the flight back to New York, FORBES' Jim Cook gradually came to realize the basic drift of what Little had said. It was simply this: That the business of business, conglomerate ones as well as nonconglomerate, is sales and earnings, money and people, and not the stock market and financial pyrotechnics. That, therefore, maybe this time-tested sage wasn't entirely unhappy that the bloom was off the stock market boom.

After all, what was the last thing he had said just before we left?

"All I ever did as a businessman was to bring men and money together. I was just extremely fortunate in some of the men I picked." ■

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Earnings Gainers: 54 Against the Trend

EARNINGS DOWN? Or level with last year? Well, don't everybody's earnings look lousy this year?

Not quite everybody's. Some companies are still reporting excellent gains, of 15% or more, for the first nine months of 1970—for example, the 54 New York Stock Exchange-listed companies at the right. Several other companies, including Combustion Engineering, Lucky Stores and Continental Telephone, missed the list by mere tenths of a percentage point.

Are their gains for real? How many are up, for example, because of inflation? That's hard to tell. Certainly the big banks on the list are benefitting from high interest rates and, lately, declining money costs. But almost all of the 54 companies show much larger earnings increases than sales increases. Some of them are benefitting from good cost control or increased volume in higher margined products—or just plain good management.

Some are also benefitting from unusually favorable conditions within their industries. Coal producers Pittston and Eastern Gas & Fuel show very large earnings gains because of the fuel shortage and skyrocketing coal prices. A long copper shortage and rising worldwide prices, at least until midyear, enabled seven companies that mine, refine or fabricate copper to make the list. But with recent copper surpluses and falling prices, these companies might not be able to hold their gains long.

Some of these gains are, to be frank, nonrecurring. MCA, for example, shows an unusually large increase for 1970 because in the third quarter of 1969 its management elected to write off several overvalued movie properties. General Cigar makes the list mainly because its Ex-Lax acquisition is included for all of 1970 but only three months of 1969. Babcock & Wilcox, which has lost huge sums in nuclear power, looks good in 1970 because its results in 1969 were terrible. Ditto Hershey Foods and Penn Fruit. Trane made the list because it changed its inventory accounting; otherwise 1970 earnings would have risen less than 15%.

Not all these gains, therefore, are the result of good management, so don't conclude, automatically, that all these companies are going on to greater things. But some of them certainly are. ■

Company	Earnings Per Share		Revenues (Millions)		Stock Price*	
	9 Months From 1970	Gain From 1969	9 Months From 1970	Gain From 1969	1970 Range	Recent
Banks						
Bankers Trust N.Y.	\$3.94	19%	\$385.7	17%	71-55	56
Chase Manhattan	2.73	24	817.5	13	56-38	46
Manufacturers Hanover	4.16	15	509.6	20	71-52	66
J. P. Morgan & Co.	3.47	20	423.7	15	71-50	63
Consumer Goods—Food & Drink						
Amstar	2.92	65	446.1	14	35-22	34
Fairmont Foods	1.09	24	246.3	6	19-13	18
Hershey Foods	1.02	42	252.8	5	28-22	25
Ralston Purina	1.28	17	1186.8	14	31-19	22
Jos. Schlitz Brewing	2.39	24	353.0	10	85-53	60
Consumer Goods—Personal Goods						
Avon Products	0.94	16	493.3	18	92-59	80
General Cigar	2.19	66	198.1	11	39-18	28
Johnson & Johnson	1.10	16	749.6	9	60-37	57
Liggett & Myers	2.65	18	497.6	—1	47-31	46
Eli Lilly	2.18	16	450.3	11	101-78	99
Loew's	2.30	35	698.7	27	41-16	28
R. J. Reynolds	3.29	19	1832.1	10	49-34	47
Distribution						
Albertson's	0.73	30	343.5	4	12-8	11
Central Soya	2.06	56	529.9	21	33-19	23
First Nat'l Stores	1.64	40	615.5	11	39-26	37
Penn Fruit	0.90	181	244.2	31	16-11	15
Safeway Stores	1.99	32	3609.5	17	32-22	30
Supermarkets General	1.30	19	576.3	26	30-16	27
Energy						
Amerada Hess	2.07	19	781.3	19	46-20	42
Eastern Gas & Fuel	1.47	65	202.2	33	37-19	35
Murphy Oil	1.20	50	197.4	11	29-14	28
Pittston	1.37	99	348.4	17	43-25	39
Industrial Equipment						
Babcock & Wilcox	0.51	55	586.7	14	30-13	21
Trane	2.57	24	188.6	9	68-47	48
Leisure & Education						
Brunswick	0.54	50	319.9	—1	19-10	17
Howard Johnson	1.01	17	227.1	10	22-11	21
MCA	1.21	2320	226.7	11	26-11	19
Metromedia	0.58	76	130.2	—1	22-10	18
Time Inc.	1.59	21	457.2	5	44-26	37
Metals						
Amer. Metal Climax	2.79	27	644.2	18	40-29	29
Cyprus Mines	4.60	23	201.1	18	72-44	53
General Cable	0.88	21	297.2	10	24-15	21
International Nickel	2.16	66	803.0	41	47-34	45
Kennecott Copper	4.79	32	876.9	17	56-34	34
Newmont Mining	2.31	28	70.2†	22	37-22	24
Phelps Dodge	4.18	33	597.8	24	57-34	35
Transportation						
Continental Airlines	0.32	88	214.8	13	14-7	10
Eastern Air Lines	0.97	**	739.9	14	19-11	13
Northwest Industries	1.64	**	593.0	12	19-9	17
Southern Railway	5.84	27	446.9	6	57-40	56
Utilities						
Consumers Power	2.36	16	459.2	15	39-28	31
Lone Star Gas	1.58	33	198.4	11	26-18	25
Texas Gas Trans.	2.08	24	314.8	11	38-26	37
Others						
Burroughs	2.14	17	619.6	20	173-79	103
Crown Cork & Seal	0.96	16	311.5	11	19-13	16
Fedders	1.21	17	226.2	10	36-20	33
Genuine Parts	1.03	18	252.1	11	34-22	34
Internat'l Tel. & Tel.	2.17	28	4375.1	13	60-31	44
Studebaker-Worth.	4.64	34	634.8	11	58-35	49
Xerox	1.81	16	1266.7	16	116-65	85

*Rounded to nearest dollar. **Deficit to profit. †Total earnings.

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The Money Men

Dr. Galbraith?

Or Dr. Friedman?

THE PRIME RATE is down from 8.5% to 7%. Business is pretty lousy. Prices don't seem to be rising as fast as before. So, it looks as if the Nixon Administration's anti-inflation drive is succeeding. *Or does it?* John R. Bunting, head man at the big (assets: \$2.8 billion) and influential First Pennsylvania Corp., parent of First Pennsylvania Banking & Trust Co., has a strongly different opinion. Bunting looks on lower interest rates not as a sign of victory but as a sign that the Nixon Administration has come to realize that its monetary policies have failed.

Says Bunting: "To say the Government's game plan has backfired is the understatement of the year. Not only hasn't inflation been

licked, it's actually more dangerous now." More dangerous, Bunting thinks, because tight money has caused a recession without keeping prices and wages from going up. In easing money to cure the recession, therefore, the Administration is taking the risk of pushing inflation into an even more dangerous stage.

You could put it this way: The medicine didn't cure the disease, but it had terrible side effects. Now, in trying to treat the side effects, the Administration may make the original disease even worse. Wrong medicine. Wrong doctor, too. Bunting suspects the Administration should have listened to Dr. Galbraith rather than Dr. Friedman.

A small, dapper and handsome Temple graduate and economist, Bunting at 45 is one of the youngest of the U.S.' top bankers. In an industry where conservatism is almost automatic, Bunting is very much the iconoclast. For one thing,

he seems to prefer the theories of John Kenneth Galbraith to those of Milton Friedman.

"Milton Friedman is a brilliant man," says Bunting, "but he is usually wrong. His theories are based on an assumption that prices and wages move in response to market pressures. But what Friedman overlooks is that we have, in effect, a situation of administered prices and wages today.

"I'll give you an example. Last year was a terrible automobile year. And what happened? Everybody raised prices. In Friedman's theoretical economy, they should have *cut* prices.

"And look at labor. Bad automobile year, lousy stock market, highest unemployment in years—and General Motors has to give a 12% settlement. Obviously, we aren't beating inflation the way we've been going."

Bunting is convinced the Administration already realizes that tight money is not going to cure infla-

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The Money Men

tion. He thinks that Washington is getting ready to intervene more directly in the wage and price picture. Will there be controls? Well, not exactly controls, but strong "guidelines."

"I know," Bunting says, "that most bankers and economists are afraid such a step would endanger the free market. In my view, the market's more fundamentally in danger if we *don't* use wage and price guidelines. If we *don't* use guidelines such as these, there will be virtually no long-term bond market at all."

Bunting thinks that if inflation starts appearing again and interest rates climb back up, the stage will be set for socialism.

"With high interest rates, how are utilities going to finance themselves? They'll practically be nationalized, because they won't be able to float long-term bonds. And state and local governments, how are they going to raise money? What about housing?"

"What I'm suggesting is that many of these things that have heretofore been financed in some or all respects in the private sector are going to go over to the Government if we continue to have this kind of inflation. So I think that a much lesser evil would be to have fairly rigorous wage and price guidelines."

We reminded Bunting that the British and the Canadians have tried an "incomes policy" and it hasn't exactly produced any miracles for them.

"That's the argument you hear, and it's supposed to be devastating. 'It hasn't worked abroad, and it didn't work here,' they say. The fact of the matter is that it *did* work. President Kennedy was using an incomes policy; people forget that. I've been looking at the economy since 1950, and the absolute best period for business conditions overall was the 1961-65 period. No recession. The economy was increasing every year, unemployment was decreasing, profits were increasing and the average increase in the consumer price index was 1% to 2% a year. If it didn't work completely, that's because nothing works *completely* in the society we have. But we're not trying to get from 5% inflation down to zero. We're just trying to get down to about 2% or 3%."

Couldn't guidelines be self-defeating? we asked. What if the unions decide to ignore them?

"For the present, we would have to have something with teeth in it. But I would put a beginning and end on it. The end to coincide with the end of our Vietnam involvement. After that, I'd use persuasion."

Can the unions be *persuaded*? we asked.

"Yes they could. We have to call some of the recent wage settlements exorbitant, but don't forget we've seen a decline in real spendable income of consumers, and the union leaders felt they had some catching up to do."

In any event, Bunting thinks the Administration already has changed its policy toward guidelines—but without admitting it.

"The Administration has a problem of face-saving. It's difficult for the President of the U.S. to say to the public: 'I've just wasted two years of your time. There's been a lot of unemployment, firms have gone bankrupt, the stock market's taken a terrible tumble, and I'm sorry.' They've got egg on their faces, and I don't think the Administration will ever *say* they have an incomes policy. But I think they will have one."

"I don't foresee a mass purge of economists. But there are going to be changes among the Kennedys, the McCrackens, the Charlie Walkers and Herb Steins, so that it's easier to accommodate a guidelines policy. I don't think David Kennedy [Secretary of the Treasury] was necessarily an architect of the previous policy, but he was part of it and a cat's paw."

"They're talking that way already. Arthur Burns [chairman of the Federal Reserve Board] has made a few noises in favor of a guidelines policy. And William McChesney Martin [former Federal Reserve Board chairman] has come out for wage-price guidelines. Now, he's a free-market man, and knowing Bill Martin as I do, if he says we need such a policy, I would suggest the evidence is *in*."

A few days after our interview with Bunting, the White House announced that it was planning to be "tougher and more specific" in criticizing wage and price rises, suggesting that the transition was already under way from its "interest-rates-only" policy. □

Philadelphia Renaissance

From being a big but sleepy provincial company, INA is now well on its way to becoming a sophisticated international operation.

THOSE of you who think of the Insurance Co. of North America as a big but sleepy old Philadelphia Establishment outfit just aren't up on the business news. Now a \$2.3-billion holding company known as INA Corp. (the insurance company has become a subsidiary), it has been moving slowly but deliberately toward becoming a full-range financial services operation. INA's biggest move was last January's acquisition of Blyth & Co., for \$55 million in stock.

Last month, INA's Chairman John T. Gurash made another interesting move. For approximately \$30 million in cash, INA bought a 10% interest in Paris' venerable Compagnie Financière de Suez (FORBES, May 1), a powerful French investment and management combine built on the remains of the old Suez Canal company. Today Suez is a diversified financial operation and controls industrial operations like Compagnie de Saint-Gobain-Pont-à-Mousson, the giant French glass and steel company. (By peculiarly French logic, while Suez controlled St. Gobain, the latter also controlled Suez; INA, in fact, is buying its Suez stock from St. Gobain.)

INA will not actually control Suez. St. Gobain will own some 15% of the stock, the British government 12%. But the move, Chairman Gurash clearly hints, is a first step toward making INA into a truly international compa-

ny. "We already have two financial subsidiaries in France," Gurash says. "One is a sizable fire and casualty company there. We want considerably more, but we realize we need French expertise. We know that companies that tried going it alone in Europe have done so to their sorrow."

Also, says Gurash, "We are a very large reinsurer, and a good deal of the business is reinsured abroad among foreign insurers. It's a very good business." He points out that INA is big in marine insurance, "and that, too, is an international business basically." While Gurash doesn't say so, Suez could probably reward INA with a significant amount of the insurance bought by the many large French companies Suez controls.

Other Motives

But there are less obvious reasons for both companies to make the deal. Gurash talks about them in guarded tones, but there is no mistaking what he is saying. From the French end, Suez' chairman and chief executive officer, Jacques Georges-Picot, seems to be thinking along the same lines.

What they are thinking about goes well beyond any short-term business advantages. As shrewd, well-informed money men, both Gurash and Georges-Picot are deeply concerned about the long-range implications of inflation and social unrest. Neither

man can solve these problems. But they can take precautions to protect their capital against them.

"We are," says Gurash, "seeing some ominous developments everywhere in the U.S. today." Nowhere do they impact more than in liability insurance, which is INA's major business.

Gurash fears that the U.S. Government may move into the liability insurance area with increasing regulation under pressure from voters who are having trouble getting automobile and household risk insurance at what they regard as reasonable cost. "Continuing inflation," he adds, "only increases the problems of insurers." Inflation means increasingly higher cost settlements each year while premium rates lag several years behind. Thus insurers are always playing catch-up.

Given all of its problems, INA management would be foolish if it did not diversify. INA already has "upstreamed" some \$175 million of its \$762-million capital from the insurance subsidiary to the parent company. And Suez is surely not the last INA diversification.

The Suez company, which is big in insurance on its own, is worried about many of the same things that INA is. Their new association seems based on the very sound idea that if you can't avoid risks, you should take every reasonable care to hedge them, geographically as well as by industry. ■



Suez' Chairman Georges-Picot (center) and M. Roger Martin (left), head of France's St. Gobain-Pont-à-Mousson, look upon INA Chairman John Gurash (right) as a promising source of capital for future expansion.

"The Chairman just told me our biggest competitor raised their net 7% by using commodity futures."

"There goes my weekend."



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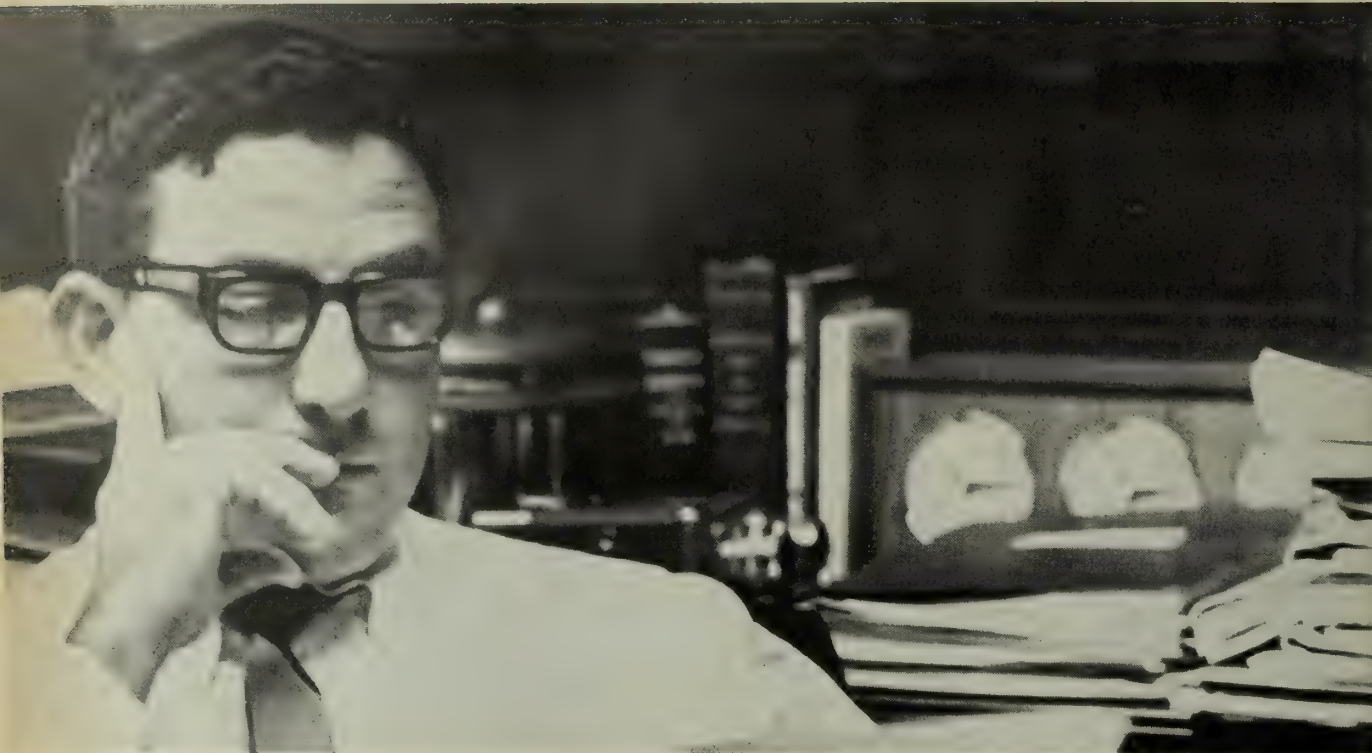
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Merrill Lynch Services for Management

Faces Behind the Figures



Money Maker Ling

The End of Something

EVER SINCE he stepped aside as chairman and chief executive of Dallas' Ling-Temco-Vought last May, James J. Ling, that conglomerate's brilliantly inventive father, founder and fomenter, has by his own admission been pretty much at loose ends. "I'm just a major stockholder," Ling told *FORBES* last month, "and I'm not in day-to-day operations. I'm on the boards of Braniff, the Aerospace Corp. and Wilson [all L-T-V affiliates] and I'm involved in L-T-V, but it's not a full-time occupation."

Ling has no ambitions of resuming his old job at L-T-V either. "I'm a man of my word," he says, "and I've given my allegiance to Paul Thayer, L-T-V's president, who's worked for me for years. You have to understand: I think it's a game of integrity as well as trying to make money."

Ling still smarts from the Justice Department's attack on L-T-V's acquisition of Jones & Laughlin, but that hasn't prevented him from continuing to think on a grand scale. "If it were really offensive to the Justice Department to be big and be in ten different areas at the same

time," he says, "I'll accept that fact. Okay. What I would do is sell everything off—at one time in L-T-V you would have, say, \$2 billion in value. Then I'd buy a nonconglomerate—I can name you four or five in the top 20—divide it in ten separate units and take all ten components public."

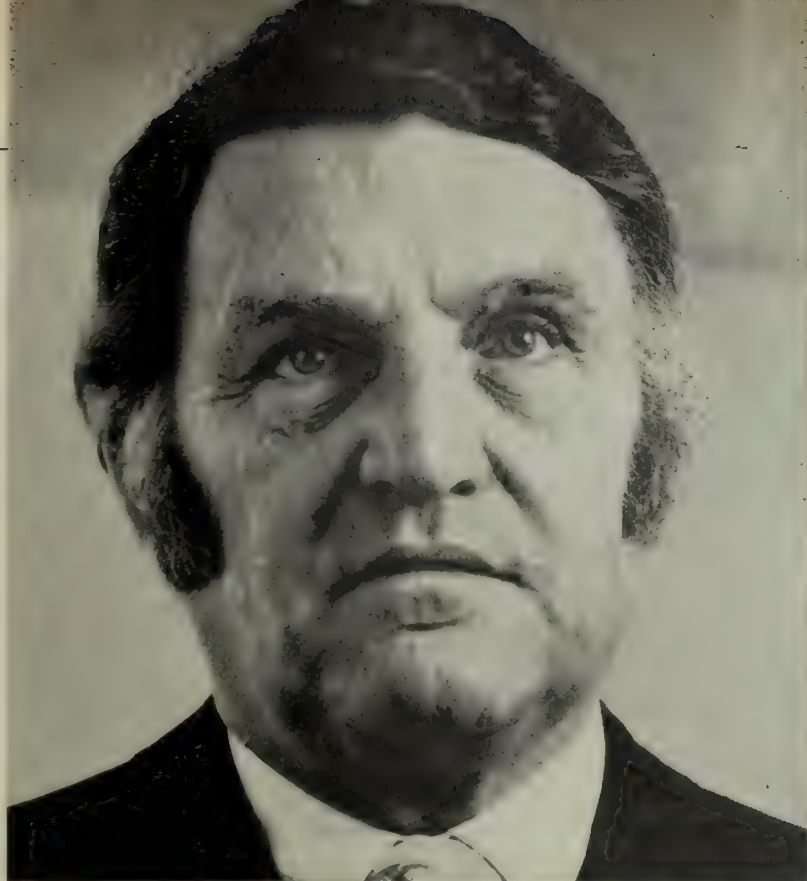
"I could own U.S. Steel West, East, North and South, and make five or four companies. Or A&P. No reason why it shouldn't be four or five companies. L-T-V divided eventually into seven companies, all publicly owned, all going their own way, all highly motivated. You can get too big to be efficient, and that's the concept of Project Redeployment. You break out to the lowest manageable profit unit, you isolate management centers and profit centers completely. That's not the way it is in big companies. You have thousands of corporate structures and corporate staffers and 75 vice presidents. But that's not the sort of company I have in mind."

This is, of course, just "conceptualizing," as Ling calls it. Meanwhile, where does he go from here?

"I may very well decide I want to make money," he says, with that nonstop assurance that used to be-

witch bankers from New York to Paris. "I never thought about that before. If you look at my record, I never sold much L-T-V stock. I've sold only 22,000 shares since 1961, so I still hold 500,000 shares, and whatever paper wealth I had was more or less because of side investments, not L-T-V. I fell in love with L-T-V, I fell in love with this company, it's been a real love affair, in fact. Being a sentimental person, it may not take long for a new affection to develop. Now that I'm not necessarily involved in daily operations, I think I'll make some money. And I'm not sure it'll come naturally to me—to get into an operation with the idea of just making money. I'm not sure I'm going to like that. I don't have any choice in the matter. I think I've got to do something."

Days later, Ling did. For a variegated package of securities, Ling bought two University Computing subsidiaries, capital goods producers both, which he planned to meld into a new company: Omega-Alpha, Inc. The End of one phase of his career, Ling says, the Beginning of another. But O-A's thrust looked the same: Project Redeployment plus a touch of venture capital. ■



Cullman of Cullman Ventures

Going Private

Most Wall Street bankers look for private companies they can take public. But not Lewis Cullman. He takes public companies private.

When the market crumbles, as in 1970, Cullman searches out profitable but disenchanted little companies that some aggressive underwriter talked into going public in happier days. "Suddenly the company's stock is selling well below

the offering price," says the 51-year-old member of the wealthy Cullman tobacco clan, "and management is looking for a way out." His solution: Liquidate.

But liquidation Cullman-style isn't as drastic as it sounds. Cullman offers to buy 100% of the stock, usually at a price well above both the current market and book value per share. The public shareholders get cash; the insiders get a cash down payment plus notes. But the

notes can be prepaid if the old executives, who continue to run day-to-day operations, meet certain performance goals. Thus the insiders help to buy themselves out, and Cullman gets the company.

Cullman has gotten two such public dropouts in the last five years: Atlanta's Orkin Exterminating Co., now part of Rollins Inc.; and New York's Allied Graphic Arts, which he still owns. Graphic's President Salie Wyker describes his experience: "Being publicly held didn't make any sense for my small company [sales: \$20 million]. When my stock hit seven times earnings I got insulted. Then along came Cullman offering ten times earnings. I took it."

There have been few likely candidates for going private in recent years—"I can't compete with the public in a bull market," says Cullman. But now the bear market scavenger expects to bring at least one company private in 1971. He is negotiating with four now, including one that is considering his \$50-million offer. And he feels a further market recovery would actually improve his prospects.

"A company president might still be telling his pals at the golf club, 'Look, everybody's stock is down, even blue chips.' But if the market rebounds strongly next year and his stock doesn't, then he might really begin looking for a way out."

Cullman, who looks a bit like a bulldog, usually opens negotiations that way too: "I see your stock is still down." ■

The Old Order Changeth?

IT SOUNDED unbelievable, but it was official—the announcement that Leon Hess was stepping down and making Hubert W. McCollum chairman and chief executive of Amerada Hess. Could it be? Hadn't Leon Hess built the company from nothing to respectable size (some \$1-billion revenues this year) even among the international oil giants? Hadn't he planned and carried through the last big step toward the \$1-billion mark in the merger with Amerada consummated in mid-1969? How could the company possibly get along without him?

It won't have to; that much is soon clear from even a brief meet-

ing with McCollum, 56, a life-long oilman when he joined then-tiny Hess Oil in 1951 as a vice president. "Mr. Hess is the most imaginative man in the oil business," says McCollum, who clearly feels more comfortable tacking the "Mr." in front of Hess' name. "Mr. Hess has always had a plan and a great desire for this company. Mr. Hess likes to build things, and if you were to contrast us, I'd say that perhaps I'm inclined to go a little more slowly. I try to work through an organization."

In short, Leon Hess, as head of the new executive committee, will continue to plan and build and Hubert McCollum to consolidate and organize, whatever their titles.

The more things change... ■

McCollum of Amerada Hess



Faces Behind the Figures

All Together Now

LIKE many a U.S. executive, Texas Gas Transmission Chairman William M. Elmer felt diversification was a good idea. So in the past ten years, he has supplemented his basic pipeline business with trucking and barging, offshore dredging and oil and gas exploration, which now account for around 50% of revenues (\$388 million) and 40% of earnings.

The trouble is, they weren't all moving ahead at the same time. When one division bounced up, another dropped off. So net income got stuck in 1968, then per-share earnings dipped last year from \$2.53 to \$2.24 a share.

Elmer, an accountant who rose to the presidency 13 years ago and became chairman in 1968, still hasn't cut out all the ups and downs, but the picture has certainly improved. Earnings are up sharply so far this year, and should reach the \$2.70 range.

"The big reason is that a lag in rate adjustments on the pipeline was rectified," he says. "The barging division and oil and gas exploration are up this year, too. We're not so happy about two others: marine

dredging, because government curtailments cut off pretty nearly all the money for river and harbor work; and the trucking strike and GM strike hurt our trucking division like the devil."

But, says Elmer, "All our businesses are good ones to be in. We see a great future for trucking. This so-called cost squeeze might hurt the smaller operators and certain inefficient majors; not us. We've received rate adjustments already to compensate us for all of this year's labor increases.

"The dredging division might be a little slow coming back. But there's nothing this country is further behind in than river and harbor work. That *must* be caught up."

Elmer doesn't like the term "conglomerate." He insists Texas Gas should instead be called "an energy and transportation company." Since his barges specialize in hauling coal to electric power plants, the all-round energy-transportation pattern gets clearer all the time.

Elmer has one other big thing going for him. With gas running short, Texas Gas has a 15-year supply vs. a 13-year industrywide average. That in itself should guarantee more *ups* than *downs*. ■



Elmer of Texas Gas Transmission

Psyching His Way Up

LIKE a rich old lady shocking the family by running off with a young lover, staid building materials maker Johns-Manville surprised the business Establishment last month by naming a kind of corporate psychiatrist as chief executive.

Taking over from Clinton B. Burnett, 62, was Dr. W. Richard Goodwin, 46, a Stanford Ph.D. in experimental psychology. "Call me Dick" Goodwin's rise to the top at J-M was as indirect as it was rapid. After getting his doctorate in 1955, he took a job with Rand Corp., the military think-tank, working on the human end of "man-machine interfaces." For ten years he developed large computer systems, then became a consultant and teacher at NYU's graduate business school.

In June 1968 Johns-Manville hired Goodwin to help set up a company-wide planning system, then took him on full time in April 1969 as vice president for planning with a chance at the chief execu-

tive slot. There were some tense moments in late 1968 over the advances of Eli Black's AMK (now United Brands), among others. But when Goodwin returned from a European vacation on Nov. 9, Burnett told him the top spot was his in a management shake-up—"a radical change for a company like J-M," says Goodwin.

Goodwin has his work cut out for him. Despite its near-monopoly position as the world's largest asbestos producer, J-M's 11.3% return on equity has been merely average in the low-profit building materials industry. Most of J-M's building products are aging commodity items. Earlier this year J-M sold or closed flooring and other operations with \$40-million sales, and the remaining roofing and siding operations may be next.

Systems expert Goodwin proposes such things as unified distribution and related acquisitions. He has the financial tools: J-M has no debt and a cash flow of over \$50 million. Says he: "I couldn't ask for a better starting point." ■



Goodwin of Johns-Manville

Faces Behind the Figures

Where To Grow?

PAUL H. HENSON, 46, is chairman and president of United Utilities, the nation's third-largest telephone company (after AT&T and GT&E). United will probably break \$500 million in revenues this year, but it suffered a 17% earnings decline (to \$24 million) in the first nine months. "The full year won't be quite as bad as the beginning," says Henson, "but it's the first time in my 12 years here that we've had a year-to-year drop."

This year's earnings troubles will not continue, Henson says, and next year looks much better: "We'll have caught up on regulatory time lag, and interest rates are easing." Also, most start-up costs in a sideline business like computer time-sharing will be behind him. He'll pick up capital gains from selling some cable-TV properties, and a new toll split with the Bell System will give him a minimum of \$10 million more in annual revenues.

While earnings should pick up next year, United will have problems keeping its revenue curve ris-



Henson of United Utilities

ing at the old rate. (During Henson's six years in charge, United has grown fivefold, largely through acquisition.) Among them, General Telephone & Electronics, United, Continental Telephone and Central Telephone have now swallowed most of the desirable independent

companies. What's left is pretty slim pickings—or too expensive, like Mid-Continent Telephone, which United looked at earlier this year.

But Henson dismisses his growth problems with a shrug: "With our \$1.4 billion in assets, we can grow 15% a year just on what we have." ■

From Ben to Frank

"I STARTED working as an office boy at 17," Frank Nunlist recalls, "went to school nights for nine years, and made up my mind then that I was going to retire when I got to be 55." Which is why, Nunlist explains, he resigned—right on schedule—two years ago as president and chief executive of Studebaker-Worthington, the sprawling conglomerate he had been largely responsible for rationalizing. In short, his departure grew out of a boyhood decision—not, as rumor had it, out of a dispute over whether Studebaker should dump Alco Products.

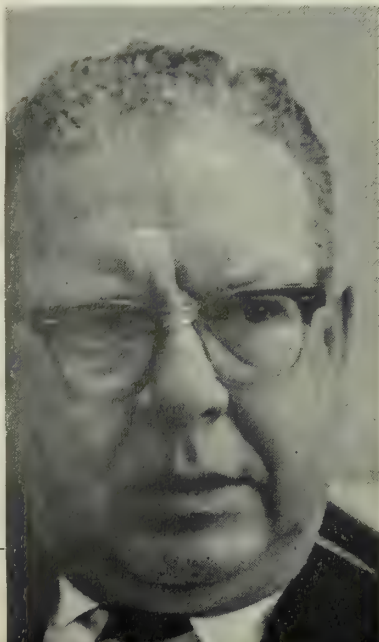
Even so, Nunlist was back at work within 90 days. Postmaster General Winston M. Blount persuaded him to come to Washington as Assistant Postmaster General, Bureau of Operations, and he has been there ever since. "Frankly, at the time, I had no interest in the job," Nunlist says, "but when I got down here and looked around, I decided that this was, as the Kappel Commission said, the greatest management challenge of the 20th century. And it certainly is."

"Here you have a company that

was established by the Continental Congress under Ben Franklin, and it has never modernized one damn bit. It'll lose \$2 billion to \$2.5 billion this year, and it has made money in only 17 years in its history. How would you like to acquire a business like that? Our task as managers is to reconstruct it."

The Post Office's 750,000-odd

Nunlist of the Post Office



employees exceed in number those of any other U.S. business except GM and AT&T; and it has been totally centralized, so much so that Washington has paid the utility bills for its postmaster in Oshkosh and decided how much a postmaster can spend on bus fare for his carriers in Chicago. What Nunlist aims to do is the sort of thing business enterprises have been doing for years—advance planning, for instance, something impossible when nobody knew from year to year how much Congress would appropriate. "I've been trying to work with our people," Nunlist says, "to help decentralize the business, to reconstruct responsibility on a local level." To modernize it, he is prepared to float the debentures that Congress has authorized (up to \$10 billion).

His object is to eliminate the Department's losses, not primarily by raising prices—though he expects first-class rates to rise from 6 to 8 cents in the spring—but by improving productivity. Can it be done? "Yes," he says, "it can. And within five years. It'll take a lot of time to make investments, substitute capital for labor. But so far, we're right on target." ■

The Pain of Plenty

Diversification began to bear fruit for Del Monte last year, but not enough to rescue the overstocked canner.

CHAIRMAN and President Alfred W. Eames Jr. of San Francisco-based Del Monte Corp. would rather talk about diversification than inventory. That's partly because in the last few years Del Monte, the world's largest fruit and vegetable canner, has begun to venture into such new areas as snack foods, frozen specialties and fresh fruit. But it's also because inventory is a dirty word this year in the canning industry, which is just surfacing from the worst oversupply situation in ten years.

As a result, prices of many of Del Monte's mainstay products—tomatoes, corn, fruit cocktail, cling peaches—dropped in 1969. With fully 60% of its \$681-million sales still coming from domestic canning operations, Del Monte's earnings in its fiscal year ended last May 31 slipped 20% from the

previous year's \$1.88 a share to \$1.51, the lowest since 1962.

"Most canners," says the 58-year-old Eames, "have taken a hell of a bloodbath this year." In the early Sixties, he goes on to explain, growers had kept coming up short because of bad weather. So each year they planted a little more. But in 1968 and 1969 the weather suddenly turned favorable; and so bountiful were the harvests that the industry supply of corn, for example, soared from a normal 48 million to over 60 million cases. As canners tried desperately to move their overstock, prices crumbled so badly that many canners saw revenues fall despite rising physical volume of their products.

Inventories also cost to carry. Del Monte's interest costs jumped to \$19.7 million last fiscal year from \$9.7

million two years earlier, clipping shareholders about an extra 45 cents a share. "We couldn't just give the stuff away," shrugs Eames, "so we had to carry it."

In the mid-Sixties, Del Monte began diversifying to lessen its vulnerability to oversupply. Under the direction of former chairman John E. COUNTRYMAN, Del Monte bought Granny Goose Foods, a snack foods maker, in 1966; Service Systems Corp., a food service and building maintenance outfit, in 1967; and a frozen foods specialty firm in 1968. That same year it also added a banana company to its growing fresh fruit and produce business—though it did so mainly to preclude a Del Monte takeover by United Fruit, which was already under government orders to reduce its banana holdings. But the venture proved so profitable that Del Monte has added still more bananas. Eames concedes that they remain a small part of Del Monte's business, but says, "They are like money trees. I wish we had more of them this year."

Service Systems, the biggest noncanning operation, last year posted sales of some \$60 million, while the frozen foods maker had revenues of \$13 million; and both, says Eames, are growing at a 30% rate. All told, noncanning areas yielded almost 20% of Del Monte's 1970 revenues.

There has also been a greater emphasis of late on international canning, which last fiscal year provided a further 20% of revenues. Together, international canning operations and domestic noncanning activities accounted for about half of Del Monte's profits last year.

Breathing Easy

Currently, Eames is breathing a little easier, with canned goods prices firming because of reduced acreage planted last year. This also means lower inventories and interest burdens, which Eames has lightened still further by replacing some "very expensive short-term borrowings" with cheaper long-term money, including \$30 million at only 5½%. "If we can just get through the next few years without oversupply and let our other businesses develop," says Eames, "we'll be in good shape."

"Within five years we'll be getting about 33% of sales from noncanning activities, about 22% from international and only about 45% from domestic canning." Does this sound slow? It doesn't to Eames, who knows how hard it is to change the makeup of one of the world's largest canners. Progress so far has been slow, but it has been real. ■



Reasons and Reasons. There is often more than one reason for an acquisition, and so it was when Del Monte bought into bananas (see story). The move nonetheless fit the company's need to shed its packer image and its vulnerability to crop cycles in traditional products.



The Forbes Index



SEPT.	137.1
OCT.	137.2
NOV.	136.3
DEC.	134.5
JAN.	132.4
FEB.	130.9
MAR.	129.0
APR.	127.8
MAY	126.1
JUNE	125.8
JULY	127.2
AUG.	126.4
SEPT.	125.3
OCT. (prel.)	124.5

Composed of the following

- Production**
- How much are we producing? (Federal Reserve Board Index of Industrial Production)
 - What volume of hard goods are we ordering? (Dept. of Commerce latest three months new orders of durable goods related to inventories)
 - How intensively are we building? (Dept. of

Commerce privately owned housing starts)

- Consumption**
- How much are people spending? (Dept. of Commerce retail store sales)
 - To what extent are consumers going into debt? (Federal Reserve net change in consumer installment debt)
 - How costly are services? (Dept. of Commerce

service price index related to the consumer price index)

- Income**
- How much are workers earning? (Dept. of Commerce personal income, wage and salary disbursements)
 - How many people have been laid off? (U. S. Dept. of Labor initial unemployment claims)

MARKET COMMENT

By L. O. Hooper



A Changing Environment

ONE REASON that we who advise investors have difficulty being assertive and direct at present is that we are dealing with many major changes in almost every area influencing social, political and economic change. This environment is very different from the set of conditions and trends with which we contended in the first 20 or 25 years after World War II.

In the first place, the economy is growing less rapidly. Population is increasing more slowly. There are fewer dynamic new industries coming into being. Capital for growth costs more, and is more difficult to obtain.

Second, while inflation has slowed down slightly, it is now suspected that inflationary trends no longer are as productive of profits as they had been in the past. Actually, it is increasingly difficult for business to pass on inflationary costs to customers. To some extent, in some areas, inflation threatens to be antiprofits. And Washington policy on credit seems to be stimulating inflation once more.

Third, the upward surge in interest rates has made bonds more competitive with stocks as an investment me-

dium. A tremendous amount of what had been "stock money" has lately been flowing into bonds. The income return on stocks has not gone up as fast as the yield on bonds.

No Shortage

Fourth, for years investors have been told that there was a "growing shortage" of stocks due to institutional accumulation, that there soon would not be enough equities to go around. Now everyone knows that there is a surplus of stocks, not a shortage. The institutions own only about 30% of the stocks, but they have been doing about 60% of the trading. This fast speculative trading by institutions has given a false impression of the size of the market they create.

Fifth, in recent months a new no-confidence factor has appeared. It concerns the bull-market bookkeeping and accounting of numerous new high-technology companies. In an attempt to justify the fantastic price/earnings ratios the public placed on their shares, many managements discovered ways to "find" earnings through capitalizing things that never should have been capitalized, and claiming that uncollected increments

on contracts written were earnings rather than receivables. In various ways, the bookkeeping of such companies as Four Seasons, National Student Marketing, Career Academy, University Computing, Memorex and some of the franchise and land-selling companies has come under heavy criticism. No doubt there are many others, most of them small concerns, which are equally guilty of exaggerating earning power.

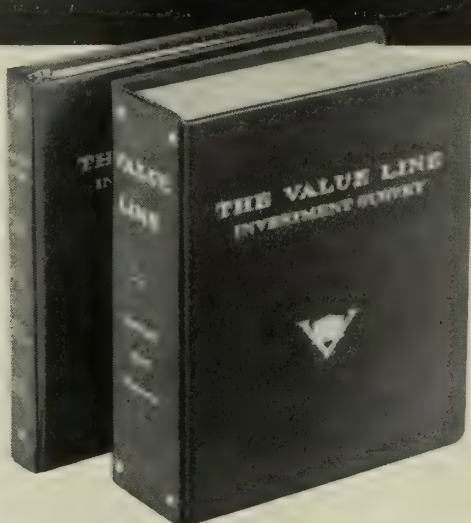
It may be said that much of the mischief could have been detected by a careful reading of the notes in the balance sheet, and that accounting firms hid behind the "general practices in the industry" phrasing of their certification statements. But this is something that analysts should have detected and exposed. Apparently many analysts did not know enough accounting to do this.

Now that the returns from the 1970 census are complete enough to provide a clear idea of trends, certain things stand out. One is that population is increasing much less rapidly, in fact slower, than at any time in history except during the Great Depression. Another is that the labor force is increasing much faster than the population, just as the population in the 1950s and the 1960s increased faster than the labor force. Still another is that the increase in the school population is slowing down, and will slow further in the years just ahead.

A fourth population trend, which has been touched on in this column before, concerns the employment mix. Less than 5% are now on the farms compared with about 50% before

Mr. Hooper is associated with the New York Stock Exchange firm of W.E. Hutton & Co.

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World War I. It is estimated that 80% of all the new jobs created in this decade will be in the service industries, which may be employing 69% of the work force in 1980. The productivity of those workers who make products and things will have to increase greatly to satisfy the demands of the service workers who do not produce anything tangible.

I'm not going to try to outline all the investment consequences of these facts about population. It is quite patent, however, that any big boom will have to originate from a higher standard of living than from having more people to consume products.

Resource Stocks

Economists have always contended that the best stocks to buy as a hedge against inflation are the shares of companies which have a store of value in the ground. Such stocks would be shares of producing oil companies, land companies, mining companies with large ore reserves, coal companies, etc. Thus far the shares of store-of-value companies like these have not behaved much better than the shares of "idea" companies without sizable physical assets, but this may not always be the case. Currently, copper shares seem well down in price, due to weak copper prices. On a cyclical basis, this might be the time to buy stocks like *Kennecott* (35), *Phelps Dodge* (35) and *Newmont* (24).

It is too early to implement another good, long-pull, speculative idea: to buy companies which have a large debt, and to pay off the debt in dollars much smaller than those borrowed. Eventually this may be the salvation of some of the airlines, especially if they can find a way to buy in debt at 50 cents or 60 cents on a dollar. When inflation goes far enough, debt is very easy to pay off. Here, of course, is the big, long-pull argument against bonds, even good ones. If you lend \$1,000 now, and inflation continues, you may get back the whole \$1,000 at maturity of the bond, but it may buy only half, a third or a quarter as much goods and services as \$1,000 buys now.

This is a confusing column for a confusing time. I can hear some readers thinking that "if he does not have any more conviction than this, why does he write a column at all?" Well, that's a good question! What I am trying to do, though, is to explain why it is so hard to be assertive right at the moment—and why it is so difficult for the market to develop a sustained and definite trend. I hope, and expect, it will be easier as the weeks go on. ■

Mr. Biel is on vacation. His column will appear in the next issue.

TECHNICIAN'S PERSPECTIVE

By John W. Schulz



Support For An Uptrend

IN *FORBES* for Dec. 1, I drew readers' attention to the Dow Jones industrials' 1970 chart profile, which clearly displays the main elements of a potential "inverted head and shoulders" base large enough, by technical standards, to support a major uptrend toward and, eventually perhaps, beyond the Dow's 1966 and 1968 bull market highs of close to 1000.

This traditional pattern of transition from bear to bull market seems to correlate strikingly with the sequence of business and monetary developments since the year's start. First came the left shoulder, formed by indecisive fluctuations between Dow 740 and 800 in January-March and reflecting investors' worries about a deepening recession as well as a burnt-child skepticism of the Federal Reserve's new departure from the crunch strategy of 1969.

Next, the head was formed when investors panicked in fear of a liquidity crisis and a general financial collapse, and then realized that the worst was not about to happen. That emotional whipsaw drove the Dow in April-May from the upper 700s to 630 and then in June-September back up to the high 700s. Thereafter, investors reverted to worrying about the economy's ability to pull out of the recession, and the Dow began to fluctuate, once again indecisively, in the 740-790 range—presumably the right shoulder in the big 1970 base pattern.

The Final Phase

One of the more fascinating things about this pattern is its relationship to the curves of money growth and interest rates, in my opinion the most important factors in technical stock market analysis. To begin with, the fact that monetary policy ceased being restrictive while the left shoulder formed ought to mean that the potential new base is "real," that it does again reflect the reversal of a major downtrend and that therefore it will be completed by an "upside breakout" from the right shoulder. The further fact that investors illogically ignored this policy shift during this year's first quarter, when it was still new, and then needlessly succumbed

to fears of a monetary crisis last spring, strikes me as typical of a final bear-market phase, always produced by excessive, unwarranted pessimism.

Since then, investors seem to have been paying more attention to the monetary statistics. During the third quarter, the so-called money stock—publicly owned demand deposits and currency—grew at relatively great annual rates, and stock prices rose sharply from their late-May panic lows. But in September the trend of money growth slowed down conspicuously, and by mid-November the money stock curve was practically flat. During the same period, there was first, you may recall, a silly but widespread notion that money would be tightened again after Election Day and later, as noted above, new concern over the outlook for a general business recovery.

Under the circumstances, it's probably not surprising that the Dow was unable to make any net progress. But, then, that can be interpreted as typical right-shoulder action, a mixture of residual bear-market motivations and timidity about the future. Or, to put it somewhat differently, the right shoulder in a base formation also is attributable to an error of pessimism, albeit usually a far less drastic one than the extreme depression which produces the head.

In the present instance, right-shoulder pessimism seemed traceable in the main to excessive preoccupation with some current monetary and business statistics and, at the same time, to neglect of others that probably foreshadow bullish trends in both areas. Thus, although the money stock turned flat, the broadly defined money supply (which includes time deposits as well as demand deposits and currency) continued its steep third-quarter growth rate right into the fourth quarter. This expansion, proceeding at an annual rate of over 16% since midyear, reflected a great buildup of lendable funds in the banking system, an extraordinary accumulation of consumer buying power, and a fairly rapid rebuilding of corporate liquidity—all key elements in the making of a viable general business recovery.

If investors had not been so intimi-

dated by the all-too-recent memory of last spring's panic, they might have responded more aggressively to the continuing decline in short-term interest rates. This trend began last March but did not gather much momentum until late summer, when growth in the broadly defined money supply started to outstrip growth of the narrowly defined money stock. By early last month, short-term rates had fallen far enough to make a cut in the Federal Reserve's discount rate and the commercial banks' prime rate inevitable. Thereafter, short-term market rates continued to drop, forcing the banks to cut the prime again and raising the possibility of a second reduction in the discount rate. At that point, moreover, short-term interest rates were so low that, at last, they forced also a sharp decline in long-term interest rates, even though the demand for long-term credit in the corporate bond market was still running at record levels.

How Soon?

These trends probably were instrumental last month in keeping the Dow from dropping out of its right-shoulder trading range. With short-term credit again plentiful and much cheaper, and with the Fed apparently determined to keep it that way, demand for corporate long-term credit could be expected to subside and long-term yields thus to decline further. Consequent downward pressure on mortgage rates would tend to stimulate the construction industry, another key element in the hoped-for economic upswing. Consequently, too, the advantage of bonds over common stocks in competition for the investor's and speculator's dollar should diminish, which should bolster the Dow's ability to break out through the top of the right-shoulder trading range (791) and rise beyond the peak of the left-shoulder trading range (804), to complete the big 1970 base.

Exactly how soon that will happen may be unpredictable. Crosscurrents set up by seasonal, tax-motivated transactions and the probably pretty somber November business statistics, due this month, could be retarding influences. But tax considerations usually cease to be a major market factor after Christmas, and the periods just before and after the yearend are traditionally marked by rising stock prices. Moreover, there are reasons to expect that investors can draw encouragement this month from a vigorous revival of growth in the money stock. All in all, I think that the Dow will be on its way into the 800-850 range sooner rather than later. ■

Mr. Schulz is a partner in the New York Stock Exchange firm of Abraham & Co.

STOCK TRENDS

By Myron Simons



The Bull Is Raring To Go

ALL OF YOU know that the stock market anticipates events—or at least tries to. It does not merely reflect them. Thus the drop in the DJI from 1000 down to nearly 630 can be seen as anticipation of the miserable earnings reports we see today.

But in early summer, long before the trend of lower earnings had reached floodtide, the market hit bottom and rallied smartly. It ended November and started December on a very strong note. Why so, in the face of poor earnings? Easier money is one explanation, but there is another factor: The market had already anticipated poor earnings months before they began to show up.

In my opinion, the market has anticipated again, this time in a *bullish* way. It looks likely that corporate earnings will start rising toward the middle of next year. Unless all past experience is useless, we should have a new bull market.

On this score, I recently did some homework to see 1) how *far* in advance of earnings turnaround the market itself turns around; and 2) how *long* the market continues to rise after such a turnaround.

What I found confirmed my optimism. There have been seven bear markets since 1932 that were brought about by—or at least accompanied by—lower corporate earnings. Each of them was followed by a rising market which began *before* earnings turned up. The table below illustrates the time sequences.

In general, the market bottomed out a year or more *before* the first higher earnings reports. And then it usually went up for a year or more *after*. Let's assume that the earnings of 1971's second or third quarters

will be higher than those of the depressed quarters of 1970. Assume further that the low of the recent bear market was made in May of this year.

In this case, we could safely say that a bull market began last spring and should go on at least until the summer of 1972, barring unforeseen catastrophes.

Is the market cheap enough to provide a springboard for a major advance rather than a merely modest recovery? Let's look at the price/earnings multiples for the Dow Jones industrials at both the low point of the market and at the low point of earnings. This is the picture:

Bear Market Years	P/E Multiple at the Bottom of the Market	P/E Multiple at the Low Point of Earnings
	Deficit earnings	Deficit earnings
1933		
1938	10.1	25.8
1942	8.55	11.8
1950	6.7	8.9
1958	11.3	20.9
1961	18.1	24.2
1967	12.9	17.6
1970	11.6	14.2*

*Current P/E multiple.

As you can see, the multiples in May 1970 and at present are not the lowest in this regard, but they are far from highest. They certainly appear low enough to allow a considerable upward movement.

One final piece of history: After the first sharp recovery from the bottom of a bear market, a period of stagnation generally follows. In 1966 it lasted for 2½ months, in 1962 three months and in 1957 four months. We've been in a relatively stagnant market for almost four months now.

If all this is true, why hasn't the

market just gone straight up until it has capitalized the better earnings prospects? There is a very good explanation rooted deep in human psychology. This psychology makes it possible for the venturesome investor to take advantage of the situation.

Let me explain. We begin with the fact that bear markets always exaggerate, always go to extremes. As soon as people see that the world is not going to end, they feel better. The stock market rallies from its lows. But it does not go straight up. Usually it rests after making a partial recovery. There is still bad news coming out and many people are still worried. During this period the bear has gone back into his cave, but the bull is still gathering his strength.

We are past this stage now. The bull is starting to stir again. Gradually people are coming to realize that the worst is over. As business picks up, the consumer will save less and buy more. Industry will put more unused capacity to work, and this will have a leveraged effect upwards on earnings.

This, then, is a good time to buy stocks before the crowd starts buying. Below are a few suggestions.

In housing, Wickes has possibilities for rapid expansion, both in sales to the building industry and in its own building activities.

Fuel appears likely to be in short supply and a number of the oil companies should benefit from this. One of my favorites is *Standard Oil of Indiana*, which is not only active in a number of discovery areas, but is also one of the larger holders of natural gas supplies in the U.S.

General Signal has had rising sales and lower profits; but some of its product lines are interesting—controls, signal equipment for the growing urban transportation market and anti-pollution products.

Sherwin-Williams has two things going for it. It's the largest manufacturer of paint in the U.S. and should benefit from an increase in activity in the housing industry. In addition it has recently made very heavy expenditures in new plant and equipment and should get the benefits from these in a rising economy.

Yes, I realize the U.S. has plenty of problems. None of them are going to be solved overnight, but other times had problems of equal severity, and the U.S. will survive then, too. Don't let the problems cloud your judgment. We had an extreme bull market in 1966-1968. It was followed by an extreme bear market in 1970. I expect to see 1971 correct 1970's bear excesses just as 1970 corrected the earlier bull excesses. ■

Mr. Simons is a partner with the NYSE firm of F.I. duPont, Glore Forgan & Co.

Bottom of Bear Market	First Quarter of Improved Earnings	Months Between Bottom of Market and Improved Earnings	Approximate Months of Ensuing Bull Market
Feb. 1933	June 30, 1933	4	49
April 1938	March 31, 1939	11	8
April 1942	Dec. 31, 1942	8	48
June 1949	June 30, 1950	12	42
Oct. 1957	March 31, 1959	17	26
Sept. 1960	Dec. 29, 1961	15	15
Sept. 1966	Dec. 29, 1967	14	12

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THE MARKET OUTLOOK

By Sidney B. Lurie



Stocks With Conservative Strengths

AT FIRST GLANCE, the constructive case is on the defensive. Even if allowance is made for the impact of the now-ended General Motors' strike, the nation's economy shows more sluggishness than strength. If some of the new car demand has been permanently lost, the poststrike production stimulus could be less than expected. The fact that the timetable of recovery has been delayed may accentuate the tax-selling and tax-switching pressures usually witnessed at this time of the year.

There are also a number of sobering, beneath-the-surface considerations. For example, the downward trend of capital goods spending indicates that the economy as a whole will have a slower rate of growth in coming years than it did in the recent past. These could be the Sober Seventies, partly because the nation doesn't have the strong sense of forward momentum which existed five to ten years ago. The possibility that we are in a less effervescent environment than in the Sixties is also indicated by the evidence that industry's emphasis may be more on digesting past growth than on looking for new worlds to conquer. And the prospect of a slowdown outside the U.S. points up the fact that booming European earnings have been important offsets to declining domestic profits for many companies.

There are also favorable factors. One is the prospect that money rates will continue to decline in 1971; I see no indication the Federal Reserve Board will change its policy of modestly expanding our money supply, and it's historically true that "money makes the mare go." Moreover, the decline in Eurodollar rates tends to increase the attraction of American stocks to foreign investors.

Strong Companies Got Stronger

In like vein of thought, emphasis on the fact that the market as a whole has been seemingly stationary for the past few months can be an oversimplification. To me, the important considerations are the beneath-the-surface signs of a shift in issue emphasis, of portfolios being restruc-

tured on the basis of the probable 1971 environment. By and large, the best performing stocks have been those of companies with a conservative tinge, such as utilities and seemingly unexciting groups like natural gas, grocery chain and tobacco, rather than those benefitting from a speculative vogue. In my opinion, this type of issue emphasis is likely to continue in the foreseeable future, and for more basic reasons than the fact that styles in securities change annually. Rather, the more marginal companies that require an overall boom for prosperity are likely to falter, and it's historically true that the strong companies seem to become stronger during a testing period.

I can therefore be enthusiastic about *Jewel Companies* (around 48, paying \$1.50, with a 1969-70 range of 56-37). Not only is the company the dominant supermarket operator in the Chicago area, but it has been expanding geographically and enjoys one of the best operating profit margins in the industry. Jewel has also become a successful retailer of other types of merchandise sold on a self-service basis (Osco Drug, Turn Style department stores), businesses which accounted for 19% of last year's operating profits. In my opinion, an innovative management and good financial position entitle the stock to command a premium multiple against this year's earnings of about \$3.40 per share, which would compare with \$3.22 last year.

I'm also intrigued with the value and speculative possibilities in *Swift* (above 27). Not just because capital has been and will continue to flow to conservative issues, but because I see special dynamics arising from the fact that Swift in a sense is now a broad-based industrial company rather than just a meat packer. Witness the fact that the fresh meat business, as such, probably contributed less than 25% of 1970 fiscal year earnings, which were about \$2.25 per share as against \$1.81 in 1969. Furthermore, I visualize a 10% to 20% earnings increase in fiscal 1971 and believe the company's target of a \$4-per-share profit a few years later is a distinct possibility.

I'm also interested in *International*

Mr. Lurie is a partner in the New York Stock Exchange firm of Josephthal & Co.

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Harvester (around 26, paying \$1.80), even though earnings for the just-ended fiscal year were only about \$1.90 per share compared with \$2.30 per share the previous year. I believe the new fiscal year has started with the hope of a substantial earnings improvement, possibly to the \$2.50-per-share level. For example, it is my understanding that retail sales of farm equipment picked up in September and were well ahead of a year ago on a retail basis in October. The company has increased its participation in the truck market—heavy-duty truck sales have increased noticeably—and the order book is believed to be about the same size that it was a year ago. The closing of the antiquated construction equipment plant will be completed by the year-end, and the difference between the 1970 divisional loss and a breakeven in 1971 could be significant.

An Antipollution Stock

All this doesn't mean, however, that interest will be concentrated only in companies that can lay claim to maturity, stability and size. Special technological capabilities which result in above-average growth prospects and profit margins will always command attention. *Lubrizol*, the world's largest independent developer and supplier of oil and fuel additives, is a perfect illustration of the point. The emphasis of the domestic automobile manufacturers on lower compression engines will in effect increase the requirement for special lubricants. Further, additive usage is increasing faster outside of, than in, the U.S. and sales in other parts of the world contribute over half the corporate total. While the stock is rich at around 67 in relation to earnings of about \$2.10 per share this year, the multiple is likely to remain high, for the world's growing concern about automotive air pollution in effect spells a growing market for the company's products.

All in all, I continue to believe that the need for a really *major* market decision won't be necessary unless and until the 1971 outlook comes under greater suspicion than exists today. Granted that the swing factor revolves around the hesitating consumer, that there is no comfort in the traditional leading indicators, the weight of evidence suggests that the underlying trend of industrial production is now upward. And this is the key consideration. Matter of fact, the current price pattern bears a striking resemblance to those that followed past major turning points. The stage is being set for quick reflection of any turn in the tide. ■

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● 48 per cent have household incomes of \$25,000 or more	300,000	58%
● 95 per cent own common or preferred stocks	593,750	25%
● 54 per cent have net worths of \$100,000 or more	337,500	30%

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The Funds

Progress for a Minority

HERE'S ONE minority that is, most decidedly, *not* underprivileged. We're talking about the no-load mutual funds. They are like other mutual funds except in one very important respect: They charge no sales commission. Fifteen years ago the no-loads were so insignificant that the mutual fund industry paid them little heed. After all, they had only a grand total of 28,000 stockholders *vs.* 2 million for the regular, load-charging funds, according to DRI Research.

But how things have changed! Today the no-loads have 1 million stockholders, a solid 10% or so of the total mutual fund population. There are about 125 no-loads (out of a total of some 725 mutual funds), whereas 15 years ago there were under 30 of them. All told, they have assets of over \$3.5 billion, about 7% of total mutual fund assets, up from \$250 million or 3%.

Unlike regular mutual funds, the no-loads are *bought* rather than sold.

That is, no salesmen push their wares (although a number of them do advertise). The would-be investor must seek the fund out, write away to it, study the prospectus himself, fill in the proper forms and mail (or bring) in his check. This calls for a fair amount of initiative, but the savings can be considerable. On a \$5,000 investment, the stockholder saves about \$425 in commissions.

How good are the no-loads? As far as performance is concerned,

In-and-Out

ARE WE in a bull market recovery from the 1969-70 crash? Or are we still in a bear market? This might seem to be the first judgment a money manager ought to make, but Gerald F. LaKarnafeaux doesn't see it that way. He says frankly he doesn't know whether this is a bull market or a bear market. He's orienting his Drexel Equity Fund to short swings. A small fund can do this; a big one can't.

Recently, LaKarnafeaux was 28% in cash, but he has been as low as



Price of T. Rowe Price Growth Stock

they are neither better nor worse than regular mutual funds. Study the figures in *FORBES* Annual Mutual Fund Report (Aug. 15) and you'll get the picture. There are great performers and poor performers among them. Go-gos and fuddy-duddies. Big ones and little ones. The fact that they do not charge commissions or use salesmen seems to make no difference at all in how they perform. But then, why should it? The salesmen don't manage the money; they only bring it in.

There are only 11 no-loads with assets in excess of \$100 million. Second largest, One William Street has assets of \$239 million. The largest of the no-loads is Baltimore's T. Rowe Price Growth Stock Fund. Recently it had assets of \$611 million. The Rowe Price firm operates two other funds. All told, it manages some \$2.7 billion in mutual fund and investment counseling money.

Why bother if there are no com-

missions to be earned? Actually, that's a very naive question. Most mutual funds make their money out of management fees, not out of commissions. And no-loads, like loads, do charge substantial management fees. The Price funds, for example, charge 50 cents per year on every 100 mutual fund dollars managed. That's about the same as most load-charging funds of similar size get. It brings in close to \$2.8 million a year in fund management fees for the Price organization. It also serves as a handy attention-getter for the company, which is, besides its funds, in the investment counseling business.

The Price organization is not in the brokerage business, but some no-load sponsors, such as Lehman Brothers, are. They get a further pay-off: They can channel through their own brokerage firms a substantial part of the commissions generated by the fund's trading.

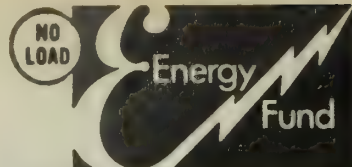
Who says a minority has to be underprivileged?

7% in cash this year—and as high as 32%. His idea is to maneuver in and out of what he thinks will be an up-and-down market with no major long-term trend.

In May, when the market was very low, he ran down his cash reserve. "We were able to pick up bargains like R.J. Reynolds, Panhandle Eastern and Weyerhaeuser." When the market rallied over the summer, LaKarnafeaux took some short-term profits and was back to 32% cash in September. Now he's down slightly after buying UAL (United Air Lines), Comsat and Holiday Inns.

Perhaps a big reason this \$42.5-million Philadelphia-based no-load has become very cautious is the beating it took in the recent bear market. Drexel ranked F in down markets in contrast to its A in up markets in the Aug. 15 *FORBES* Mutual Fund Survey. LaKarnafeaux reasons that he did poorly in down markets because Drexel was so fully invested, and he's trying to avoid taking that risk again.

"I feel that the market won't be much higher a year from now than it is today," he says. Thus he feels a trading policy is the best policy for now. ■



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READERS SAY

(Continued from page 10)

Good Job

SIR: You have written, in a really out-
standing way, the most comprehensive
article I've seen yet on home furnishings
and the industry's growth potential for
the '70s.

—ROGER T. GROCE
Assistant Manager-
Corporate Information,
Armstrong Cork Co.
Lancaster, Pa.

It's Being Done

SIR: In an editorial in your Nov. 15
issue, you raise the question of putting
screw tops on returnable bottles. This is
already being done on a limited scale.
Conceivably, it will be done on a major
scale by the end of 1971.

The basic problem is that a bottler's
returnable bottles will have to be re-
placed with new returnable bottles. Nat-
urally any bottler is hesitant to dispose
of his existing "float" of returnables be-
cause of the investment they represent.

—JOHN D. NORTHRUP
Vice President & General Manager,
Closure Division-
Owens-Illinois
Toledo, Ohio

SIR: During September Coca-Cola
USA began test-marketing a 26-ounce
returnable bottle for Coca-Cola with a
resealable closure.

Coca-Cola USA is also involved in
test-marketing a plastic bottle with re-
sealable closure. Experiments have
shown that no significant mechanical,
chemical or corrosive problems should be
expected by incinerating the container in
municipal disposal systems.

—HARRY E. TEASLEY JR.
Product Manager, Packaging,
Coca-Cola USA
Division, The Coca-Cola Co.
Atlanta, Ga.

SIR: I came across this item in the
Alcoa Aluminum Newsletter: "a twist-off
pilferproof aluminum closure for the de-
votee of the returnable beverage bottle."

—R.H. SIMS
Vice President,
Jersey Central Power & Light Co.
Parsippany, N.J.

... And Doctors, and Dentists ...

SIR: I agree with your caption "Let
'Em Advertise" (*Fact & Comment*, Nov.
1), but why not include the dentists,
doctors and hospitals too? Maybe while
we're at it they could all let us see
some comparative charge figures (before
we go in) and some published profits
statements (after we pay our bills).

—M.D. KNOX
President,
Wayne Electronic Products Co.
Oklahoma City, Okla.



PUBLIC SERVICE ELECTRIC AND GAS COMPANY

QUARTERLY DIVIDENDS

The Board of Directors has declared
the following dividends for the quar-
ter ending December 31, 1970:

Class of Stock	Dividend Per Share
Common	\$.41
\$1.40 Dividend Preference Common	\$.35
Cumulative Preferred	
4.08% Series	\$1.02
4.18% Series	1.045
4.30% Series	1.075
5.05% Series	1.2625
5.28% Series	1.32
6.80% Series	1.70
9.62% Series	2.405

All dividends are payable on or be-
fore December 21, 1970 to stock-
holders of record November 30,
1970.

MALCOLM CARRINGTON, JR.
Secretary



PUBLIC SERVICE ELECTRIC AND GAS COMPANY
SERVING NEW JERSEY/LAND OF AMAZING ADVANTAGES

THE USF&G

Baltimore, Maryland 21203

The Board of Directors
of United States Fidelity
and Guaranty Company
voted a dividend of fifty-
five cents a share, payable
January 30, 1971, to stock-
holders of record Decem-
ber 18, 1970.

WILLIAM R. PHELAN
Vice President-Treasurer
and Secretary
November 25, 1970

E. I. DU PONT DE NEMOURS & COMPANY

Wilmington, Del., November 16, 1970

The Board of Directors today declared
regular quarterly dividends of \$1.12½ a
share on the Preferred Stock—\$4.50 Series
and 87½¢ a share on the Preferred Stock
—\$3.50 Series, both payable January 25,
1971, to stockholders of record at the
close of business on January 8, 1971;
also \$1.25 a share on the Common Stock
as the year-end dividend for 1970, pay-
able December 14, 1970, to stockholders
of record at the close of business on
November 24, 1970.

H. T. BUSH, JR., Secretary



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If the money you have today is to grow in the future toward more income, or for education, travel, leisure, retirement, it must be kept working full time to achieve your investment goals.

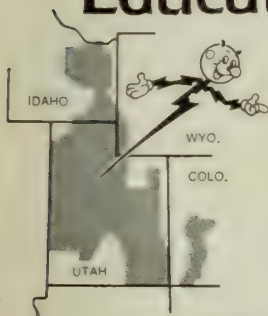
Yet you may find that you are actually losing ground due to inflation, taxes or lack of time for investment decisions.

To help solve this problem, clients in 55 countries have turned to The Danforth Associates Investment Management Plan. It has, we believe, proved especially efficient in providing continuing capital growth supervision for portfolios of from \$5,000 to \$50,000—on behalf of people who recognize and can share the risks and rewards of common stock investments. The cost is modest, as low as \$100 per year.

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THOUGHTS... ON THE BUSINESS OF LIFE

We shall hear the rain and wind
beat dark December.

—SHAKESPEARE

Children, love one another, and if
that is not possible—at least try to
put up with one another.

—JOHANN WOLFGANG VON GOETHE

Friendship is a word the very sight
of which in print can make the heart
warm.

—AUGUSTINE BIRRELL

Brotherhood is the very price and
condition of man's survival.

—CARLOS P. ROMULO

Sharing is the great and imperative
need of our time. An unshared life is
not living.

—STEPHEN S. WISE

The greatest pleasure I know, is
to do a good action by stealth, and
have it found out by accident.

—CHARLES LAMB

Philanthropies and charities have a
certain air of quackery.

—RALPH WALDO EMERSON

To give away money is an easy
matter, and in any man's power. But
to decide to whom to give it, and
how large and when, and for what
purpose and how, is neither in every
man's power—nor an easy matter.
Hence it is that such excellence is
rare, praiseworthy and noble.

—ARISTOTLE

Blessed are those who can give
without remembering and take with-
out forgetting.

—ELIZABETH BIBESCO

A successful house anywhere is
one where you sense immediately that
the people who live in it are really
involved in being alive.

—BENJAMIN BALDWIN

We cannot hold a torch to light
another's path without brightening
our own.

—BEN SWEETLAND

B. C. FORBES

*Christmas is glorious. I love
the season, the Spirit of Christ-
mas. If your heart is in the right
place, it affords you appropri-
ate opportunity to do things for
others, to express your good will,
to let yourself go sentimentally,
philanthropically.*

*The Christmas Spirit brings
home to us—or should bring
home to us—the profound Bibli-
cal truth that "it is more blessed
to give than to receive." Any-
thing which inspires unselfish-
ness makes for our ennoblement.
Christmas does that.*

I am all for Christmas.

Learn the luxury of doing good.

—OLIVER GOLDSMITH

The gift without the giver is bare.

—JAMES RUSSELL LOWELL

Life is too short to be little.

—BENJAMIN DISRAELI

Beautiful snow! It can do nothing
wrong.

—JOHN WHITTAKER WATSON

Why you are born and why you
are living depend entirely on what you
get out of this world and what you
give it.

—OSCAR HAMMERSTEIN

He who shares the afflictions of
others will merit to behold the com-
forting of humanity.

—TALMUD

Not for himself, but for the world
he lives.

—LUCAN

A man who is always satisfied with
himself is seldom satisfied with others.

—LA ROCHEFOUCAULD

Independence is of more value than
any gifts; and to receive gifts is to
lose it.

—SAADI

Take time to enjoy the present.

—ALEXANDER REID MARTIN

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dexed by author and subject, are
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A Text...

Sent in by M.J. Hall, Sarasota,
Fla. What's your favorite text?
The Forbes Scrapbook of Thoughts
on the Business of Life is pre-
sented to senders of texts used.

*How beautiful upon the mountains
are the feet of him that bringeth good
tidings.*

—ISAIAH 52:7

